



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, 2009, 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 in the Philippines. 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

Miscellaneous Receivables arising from claims from Government of the Philippines amounting to ₱1.254 billion has no legal basis or document to support the claim contrary to the Accounting Principle on Objectivity. There was only a commitment on the part of the Office of the President thru the Presidential Social Fund to release the Subsidy to LWUA which represents 40% of the ₱3.166 billion net realizable value of Receivables as of December 31, 2009.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the matters referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of Local Water Utilities Administration as of December 31, 2009 and of its financial performance and its cash flows for the year then ended in accordance with generally accepted state accounting principles.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to Note 30 of the financial statements which stated that LWUA did not declare dividends for CYs 2009 and 2008 in view of its pending request with the Department of Finance (DOF) for exception from dividend remittances because of its dire need for huge capital to finance its projects. It is also worthy to note that upon the request, the Office of the President approved a reduced rate of 14% but not lower than P50 Million for CY 2005 only, and rate of 24% for CY 2006 only, which were paid in 2008 as stated in the Statement of Cash Flows.

Pending the approval of the said request, LWUA is still liable to pay the dividends computed at 24% for both years which amounted to P91.216 million and P162.914 million for CYs 2009 and 2008, respectively.

COMMISSION ON AUDIT

PRISCILLA DG. CRUZ
Supervising Auditor

May 28, 2010

**LOCAL WATER UTILITIES ADMINISTRATION
BALANCE SHEET**

December 31, 2009
(With Comparative Figures for 2008)
(in Philippine Pesos)

	Notes	2009	(as restated) 2008
ASSETS			
Current Assets			
Cash and cash equivalents	2, 3	920,911,227	1,650,526,074
Receivables, net	2, 4	3,166,010,825	1,691,527,915
Supplies inventory	5	3,015,912	3,092,915
Other current assets	2, 6	100,430,432	105,525,719
Total Current Assets		4,190,368,396	3,450,672,623
Non-Current Assets			
Long-term receivables, net	7	12,092,371,447	12,610,641,898
Long-term investments	8	843,731,598	396,890,811
Property and equipment, net	9	181,498,370	145,915,695
Other non-current assets	10	253,392,772	171,284,131
Total Non-Current Assets		13,370,994,187	13,324,732,535
TOTAL ASSETS		17,561,362,583	16,775,405,158
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable	11	637,270,243	100,873,222
Payables to government agencies	12	85,279,774	587,497,051
Other current liabilities	2,13	2,029,604,154	1,142,860,875
Total Current Liabilities		2,752,154,171	1,831,231,148
Non-Current Liabilities			
Loans Payable, Government of the Phils	2, 14	2,372,837,063	2,594,688,000
Loans Payable - Foreign, net of current portion	2, 15	5,452,169,682	5,763,459,807
Loans Payable, Local	2, 16	516,626,666	608,280,000
Deferred Credits	17	715,655,452	409,837,203
Total Non-Current Liabilities		9,057,288,863	9,376,265,010
TOTAL LIABILITIES		11,809,443,034	11,207,496,158
EQUITY		5,751,919,549	5,567,909,000
TOTAL LIABILITIES AND EQUITY		17,561,362,583	16,775,405,158

See accompanying Notes to Financial Statements.

LOCAL WATER UTILITIES ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
As of December 31, 2009
(With comparative figures for 2008)

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.

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.

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 (Revised 2007) "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 items of income and expense as "extraordinary items"; 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 2008

In compliance with Paragraphs 29 and 75b of PAS 1 regarding the fair presentation of financial statements, the line item "Receivables, net" shown under the Current Asset caption, was segregated into two classes: (1) Trade Receivables and (2) Non-trade Receivables. In effect, "Receivables, net" was shown at P1,691,527,915 for CY 2008 figures in this Year's 2009 Annual Audit Report (Note 4).

Likewise, the Line item "Prepaid Expenses" shown under the Current Assets caption of the Balance Sheet for CY 2008 in the last year's previously published report in the amount of P361,609, was merged with Other Current Assets for the latter to aggregate P105,525,719 (Note 6).

Also, to conform to Paragraphs 29 and 75b of PAS 1 regarding the fair presentation of financial statements, Long-term Liabilities net were segregated into three (3) line items on the face of the Balance Sheet under the caption of Non-Current Liabilities, namely:

1. Loans payable, Government of the Philippines (Note 14)
2. Loans payable – Foreign, net of current portion (Note 15)
3. Loans Payable – Local (Note 16)

And in adherence with Paragraphs 60 and 62 of PAS 1 on the distinction of a liability either as a current or a non-current liability, Loans Payable, Government of the Philippines decreased by P143,551,069 while Loans Payable, Foreign decreased by the same amount.

The affected accounts were disclosed in detail under Notes 4, 6, and 13 of the Notes to Financial Statements.

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, Plant and Equipment (PPE)

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. As of balance sheet date, there was no indication that an item of LWUA’s PPE is impaired, using the assessment procedure provided in IAS 36. LWUA uses the Cost Model in recognizing an item of PPE. Under this model, there is no need for appraisal or revaluation of PPE.

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.

The account “Deferred Tax Asset” is presented and classified under “Other Non-Current Assets”, net of the Deferred Tax Liability, as follows:

	2009	2008
Deferred Tax Assets	485,544,555	403,124,165
Deferred Tax Liability	261,681,142	261,681,142
Net Deferred Tax	223,863,412	141,443,023

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.

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) is 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.

3. CASH AND CASH EQUIVALENTS

This account consists of:

	2009	2008
Cash on hand	62,829,558	33,428,280
Cash in bank – local currency	792,052,381	1,426,081,624
Cash in bank – foreign currency	23,390,650	146,917,191
Short- term investments	42,638,638	44,098,979
	920,911,227	1,650,526,074

4. RECEIVABLES

This account consists of:

	2009	(as restated) 2008
Trade Receivables		
Loans receivables from GOCCs	1,656,779,080	1,274,695,582
Interest receivables	935,240,281	949,848,687
Receivables from Well Drilling Projects	7,201,883	7,600,253
Receivables from Engineering Studies	1,394,829	1,939,103
Total	2,600,616,073	2,234,083,625
Less allowance for doubtful accounts	689,050,376	615,020,340
Net Trade Receivables	1,911,565,697	1,619,063,285
Non-trade Receivables		
Due from Officers and employees	10,179,785	4,885,082
Receivables from Government Agencies	56,567,335	32,894,883
Miscellaneous	1,192,739,479	39,726,136
Total	1,259,486,599	77,506,101
Less : allowance for doubtful accounts	5,041,471	5,041,471
Net Non-trade Receivables	1,254,445,128	72,464,630
	3,166,010,825	1,691,527,915

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.

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

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

Due from officers and employees represents receivables from various loans granted to LWUA officials and employees in the form of housing assistance, medical and multi-purpose loans.

Receivables from Government Agencies represents those due from National Government Agencies (NGAs) in the amount of P51,854,754 and those interest bearing loans due from the Local Government Units in the amount of P4,712,581. *Due from NGAs* 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.

Miscellaneous receivables represent 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. The increase in this account by ₱1.15B was due mainly to the recognition of funds committed to be released by the Office of the President thru the Presidential Social Fund.

5. SUPPLIES INVENTORY

This account consists of:

	2009	2008
Office supplies inventory	2,075,330	965,701
Medical, dental and laboratory supplies	540,722	445,387
Other supplies inventory	399,860	1,681,827
	3,015,912	3,092,915

The *Office supplies inventory* consists of supplies purchased/held for consumption in the normal course of LWUA operations. Acquisitions of supplies from the Procurement Service pertaining to previous years and previously charged to Guaranty Deposits account in the amount of P1,792,053 were reclassified to this account (See also Notes 6).

The *Medical, dental and laboratory supplies account* 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 which are still not issued and are being kept in stock for future use of water districts.

6. OTHER CURRENT ASSETS

This account consists of:

	2009	2008
Advances to contractors	38,888,309	41,052,297
Advances to consultant	25,971,098	34,350,935
Advances to water districts	33,567,483	26,567,483
Prepaid expenses	549,306	361,809
Guarantee Deposits	1,454,236	3,193,195
	100,430,432	105,525,719

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

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

Advances to water districts include releases of funds to different water districts for earthquake rehabilitation and to defray take-over expenses. The amounts released to the various water districts shall be subject to liquidation or shall be reported on as soon as the purpose for which it was given have been served.

Prepaid expenses account pertains to payments of insurance premiums of LWUA vehicles and other insurable properties.

Guarantee Deposits refers to prepayments made to various firms / individuals such as advances to Manila Electric Company, PLDT for Telephone Deposit, Deposit to C. Lotti for the opening of a special account for feasibility study, etc. The decrease of P1.7M was due to reclassification of supplies acquired from Procurement Services in previous years into office supplies inventory. (See Notes 5)

7. LONG-TERM RECEIVABLES

This account consists of:

	2009	2008
Loans receivable from water districts (WD)	12,788,140,895	13,281,720,078
Restructured receivables – WD	503,285,676	388,897,380
Employees multipurpose loan receivables	201,761,398	138,429,967
Unbilled loans and accounts receivables- WD	96,050,064	96,050,064
Loans receivables- RWSA	30,173,156	31,879,555
	13,619,411,189	13,936,977,044
Less: Allowance for bad debts	1,527,039,742	1,326,335,146
	12,092,371,447	12,610,641,898

Loans receivable from water districts comprises of the peso and foreign cost releases to finance the development of various water supply projects in the provincial areas. They bear 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 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.

Restructured Receivables – Water Districts - these are loans collectible from water districts at reduced interest rates (7.5% - 9%) to make loans affordable and to fast track project implementation in small water district areas. Length of amortization payments was likewise modified to ease payment by water district borrowers.

Unbilled loans and accounts receivable – *WD* represents project expenditures 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 rural waterworks and sanitation associations for the development of water supply in the rural areas.

8. LONG -TERM INVESTMENTS

The account includes

	2009	2008
Advances to Express Savings Bank Inc	400,000,000	-
Investments in Bonds	363,324,018	396,890,811
Investments in Subsidiaries	80,003,070	-
Advances to LWUA Consult, Inc.	404,510	-
	843,731,598	396,890,811

Advances to Express Savings Bank.....P400,000,000

In order to meet the requirements imposed by the Bangko Sentral ng Pilipinas, as part of Express Savings Bank ,Inc. (ESBI) rehabilitation program, the LWUA Board of Trustees, in Resolution No. 336 dated August 17, 2009, made advance payment to ESBI for stock subscription in the amount of four hundred million pesos (P400,000,000.) In August 25, 2009, Manager's Check No. 130424 was paid to the United Coconut Planter's Bank in the amount of P400,000,000 for LWUA's stock subscription to ESBI. The payment was treated by LWUA as an advance payment to the capital subscription, thus increasing the capital of ESBI. ESBI issued Official Receipt No. 56928 acknowledging receipt of the P400,000,000.

Investments in Bonds.....P363,324,018

This account represents placements in agrarian reform bonds. 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.

Investments in SubsidiariesP80,003,070

In June 2009, LWUA purchased sixty percent (60%) of the total issued and outstanding common shares of Express Savings Bank Inc. (ESBI), a private banking institution currently under a Bangko Sentral ng Pilipinas (BSP) administered rehabilitation. LWUA paid P80,003,070 for the 445,377 shares to the various owners of these shares.

LWUA's decision to operate a quasi bank, to be later named as the Water and Energy Bank, was anchored on the following grounds:

- Republic Act 7721 as implemented by Section 14 of BSP Circular No. 51 dated October 14, 1994, Under this Circular, LWUA may own up to sixty percent (60%) of the voting stock of a domestic bank;

LWUA has been favored to invest /create a subsidiary and such act is within Its charter to do so, pursuant to the legal opinion from the Office of the Government Corporate Counsel (OGCC) dated September 23, 2009, OGCC citing Sections 50,59 and 71 of PD 198.

Advances to LWUA Consult Inc.P404,510

This represents the partial liquidation of cash advance for the registration of the incorporation of LWUA Consult, Inc. with the Securities and Exchange Commission. The creation of the subsidiary was envisioned under Board Resolution No. 152 series of 2009 dated June 30, 2009 and Resolution No. 608 series of 2009 dated November 10, 2009. The SEC approved its registration on December 7, 2009.

9. PROPERTY AND EQUIPMENT

The roll forward analysis of this account follows:

	Land Improvement	Building & Improvement	Furniture & Office Equipment	Engineering & Laboratory Equipment	Other Equipment	Total
CY 2009						
At January 1	1,664,620	141,042,766	89,054,291	106,793,741	48,435,099	386,990,517
Additions	-	6,772,947	7,185,685	2,956,470	17,667,020	34,582,122
Transfers	-	-	37,678,219	12,503	2,850,368	40,541,090
Disposals	-	-	(4,327,131)	(199,146)	(738,207)	(5,264,484)
At December 31	1,664,620	147,815,713	129,591,064	109,563,568	68,214,280	456,849,245
Accumulated Depreciation						
At January 1	-	56,117,450	43,838,956	98,262,288	42,856,128	241,074,822
Depreciation	-	6,519,682	29,272,872	166,025	4,328,633	40,287,212
Disposals	-	-	(3,927,923)	(430,686)	(1,652,550)	(6,011,159)
At December 31	-	62,637,132	69,183,905	97,997,627	45,532,211	275,350,875
Net Book Value At December 31	1,664,620	85,178,581	60,407,159	11,565,941	22,682,069	181,498,370
CY 2008						
Cost						
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)
At December 31	1,664,620	141,042,766	89,054,291	106,793,741	48,435,099	386,990,517
Accumulated Depreciation						
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)
At December 31	-	56,117,450	43,838,956	98,262,288	42,856,128	241,074,822
Net Book Value At December 31	1,664,620	84,925,316	45,215,335	8,531,453	5,578,971	145,915,695

10. OTHER NON-CURRENT ASSETS

This account consists of:

	2009	2008
Deferred tax assets	223,863,413	141,443,023
Deferred engineering study cost	10,243,816	6,140,302
Restricted funds	956,313	8,863,407
Deferred well drilling cost	4,027,712	531,662
Other deferred charges	14,301,518	14,305,737
	253,392,772	171,284,131

Deferred tax assets pertains to prepaid tax arising from certain expenses not currently deductible for income tax purposes pursuant to PAS 12, details of which are as follows:

	2009	2008
Balance of Deferred Tax Asset	485,544,555	403,124,165
Balance of Deferred Tax Liability	261,681,142	261,681,142
Deferred Tax Assets. net	223,863,413	141,443,023

Paragraph 72 of PAS 12 states : “Although current tax assets and liabilities are separately recognized and measured, they are offset in the balance sheet subject to criteria similar to those established for financial instruments in IAS 32 Financial Instruments : Disclosure and Presentation.”

Paragraph 74 of PAS 12 also states, “An entity shall offset deferred tax assets and deferred tax liabilities, if, and only if:

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities, and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (c) (1) the same taxable entity; or
 - (d) Different taxable entities which intend either to settle current tax liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.”

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 drillings that are held for future billing to various water supply projects.

11. ACCOUNTS PAYABLE

This account consists of:

	2009	2008
Notes and acceptances payable	500,000,000	-
Interest payable	81,797,068	52,658,858
Accounts payable	50,051,556	43,010,178
Payable to officers and employees	5,421,619	5,204,186
	637,270,243	100,873,222

Notes and acceptances payable pertains to the amount of loan with the Philippine Veterans Bank in the amount of P500,000,000, exclusively for the financing of LWUA's liquidity requirement for debt servicing of LWUA's existing and maturing loans. This loan carries an interest rate of 6.8421% per annum for a 90 days term which will fall due on February 24, 2010. In this regard, LWUA executed Promissory Note No. 104013703367 last November 23, 2009 and it was secured by the assignment of LWUA's Trade / Business receivables.

12. PAYABLE TO GOVERNMENT AGENCIES

This account consists of amounts:

	2009	2008
Due to Government Owned and Controlled Corporations (GOCCs)	81,778,935	573,938,742
Due to Bureau of Internal Revenue (BIR)	3,500,839	13,558,309
	85,279,774	587,497,051

Due to GOCCs pertains to collections of loans from Water Districts thru bank credits.

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).

13. OTHER CURRENT LIABILITIES

This account consists of:

	2009	(as restated) 2008
Loans payable, current – foreign	302,608,052	286,484,317
Loans Payable , current -GOP	135,283,775	143,551,069
Loans payable, current – domestic	91,653,333	191,653,333
Guaranty deposits payable	55,795,215	55,711,410
Other payables	1,444,263,779	465,460,746
	2,029,604,154	1,142,860,875

Loans payable, current- foreign represents the currently maturing portion of loans received through loan agreements executed by and between the LWUA as the borrower and the foreign lending banks as the lenders 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 – current- Government of the Philippines is the current portion of loans executed by and between the Republic of the Philippines(RP) as the borrower and the foreign lending banks as the lender. Subsidiary loan agreements were likewise executed by and between the LWUA, as the implementing agency and sub-borrower, and the RP as the sub- lender to LWUA.

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 refers to the amount of advances made by the Bureau of Treasury for LWUA's debt service obligation and to the amount of funds received from sources other than the sale of capital stock for special or designated purpose. The very significant increase in the balance of this account was attributed mainly to the net increase of P985,716,861 in Liability for Special Funds as a result of various cash subsidies received from the National Government, and by net decreases in Other Payable accounts such as Depository Liabilities –WDDP, Advances from Plane Fares, etc., to come up with a net increase in *Other payables* by P978,823,034.

14. LOANS PAYABLE – GOVERNMENT OF THE PHILIPPINES (relent loans)

This account consists of:

	2009	2008
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.	231,353,597	258,560,653
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	302,306,638	330,120,843
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.	631,847,841	651,644,927
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.	74,832,117	84,157,015
ADB 1599 - \$292 T 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 up to Nov. 15, 2022	13,118,922	13,118,922
DANIDA V – DKr95M At 0% interest payable in 17.5 annual installments of DKR5,280,000 starting on April 1, 1992 to October 1, 2009.	-	46,315,648
IDA 920-PHI – US\$14M 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.	46,234,787	53,614,192

	2009	2008
OECF PH-P82 – Y.945B At 8.7% per annum payable in 20 annual principal payments of Y46,110,000 starting January 20, 1998 to January 20, 2018.	103,334,836	112,119,793
OECF PH-P124 – Y.789B At 9% per annum payable in 20.5 annual principal payments of Y38,468,000 starting April 20, 2000 to April 20, 2022.	45,941,669	65,138,439
OECF PH-P149 – Y6.212B 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	970,742,519	1,028,740,493
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	88,407,912	94,708,144
	2,508,120,838	2,738,239,069
Less : Current Portion	135,283,775	143,551,069
Loans Payable – GOP	2,372,837,063	2,594,688,000

Loans Payable – Government of the Philippines are loans executed by and between the Republic of the Philippines (RP), as the borrower and the foreign lending banks, as the lender. Subsidiary loan agreements were, likewise, executed by and between the LWUA, as the implementing agency or one of the implementing agencies, and sub-borrower, and the RP, as the sub-lender to LWUA.

15. LOANS PAYABLE - FOREIGN

This account consists of:

	2009	2008
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 annual installments of \$733,100 starting March 1, 1999, increasing, thereafter, up to September 1, 2018.	800,818,653	845,400,435
ADB 1472-PHI – US\$45M At 6.79% per annum payable in 20 annual installments of \$848,500 starting March 1, 2002, increasing, up to September 1, 2021.	1,070,480,361	1,111,073,503
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.	862,606,880	906,291,515
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	1,900,980,910	2,014,469,585
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.	146,018,986	220,976,281
KFW PTWSP I & II – Euro 14.700M German Financial Cooperation with the Philippines aimed to upgrade the WSS of Water Districts	973,871,944	951,732,805
Total Loans Payable Foreign	5,754,777,734	6,049,944,124
Less : Current Portion	302,608,052	286,484,317
	5,452,169,682	5,763,459,807

Loans payable – foreign represents loans received through loan agreements executed by and between the LWUA as the borrower and the foreign lending banks as the lenders mainly to finance, on a long-term basis, the development of various water systems in different cities, municipalities and rural areas of the country.

16. LOANS PAYABLE – LOCAL

Loans payable – local includes the three (3) Term Loans from the Land Bank of the Philippines made in three (3) tranches of P500 Million per tranche. These loans are secured as follow:

- 80% by the assignment of LWUA’s Trade Receivables; and
- 20% by the assignment of LWUA’s Agrarian Reform Bonds

The status of these term loans is as follows:

1st Tranche – P500,000,000

This Term Loan of P500 Million carries an interest rate equal to deposit rate plus 4% spread, subject to quarterly repricing but in no case shall the rate be lower than 10% per annum. It is payable in 20 equal quarterly amortizations. The loan was availed of in one single drawdown.

The following Table shows the year and corresponding amounts of availment and repayments

Date	Availment	Repayment	Balance
2004	P500,000,000		500,000,000
2005		100,000,000	400,000,000
2006		100,000,000	300,000,000
2007		100,000,000	200,000,000
2008		100,000,000	100,000,000
2009		100,000,000*	

* current portion for 2008 loans

2nd Tranche - P500,000,000

This Term loan carries interest on LBP’s prime lending rate plus 2% spread, subject to quarterly repricing but in no case shall the rate be lower than 9.5% per annum. It is payable in 20 equal quarterly amortizations to commence at the end of the 8th quarter from the initial drawdown date, plus a balloon payment on the maturity of the loan. The full amount of the loan was availed in 2004 in five (5) drawdowns. Starting April 2010, the interest rate was reduced to 8.5% per annum upon the request of LWUA.

The following Table shows the year and corresponding amounts of availment and repayments.

DATE	AVAILMENT	REPAYMENT	BALANCE
2004	P500,000,000		500,000,000
2005			500,000,000
2006		25,000,000	475,000,000
2007		33,333,333	441,666,667
2008		33,333,334	408,333,333
2009		33,333,333*	375,000,000
2010		33,333,334**	341,666,666
2011		341,666,666	-

* current portion for 2008 loans

** current portion for 2009 loans

3rd Tranche – P291.60 Million

The approved Term Loan is for P500 Million, but only P291.60 Million were availed of. It carries an interest rate equivalent to LBP's prime lending rate plus 2% spread, subject to quarterly repricing but in case shall the rate be lower than 9% per annum. Its repayment is equivalent to 20 equal quarterly amortizations to commence at the end of the 9th quarter from the initial drawdown date, the first quarter of 2006. There were two (2) drawdowns from the loan, one in 2006 and another in 2007. Starting April 2010, the interest rate of this loan was reduced to 8% per annum upon the request of LWUA.

Schedule below shows the year and corresponding amounts of availment and repayments

DATE	AVAILMENT	REPAYMENT	BALANCE
2006	P220,000,000		P220,000,000
2007	71,600,000		291,600,000
2008			291,600,000
2009		58,320,000*	233,280,000
2010		58,320,000**	174,960,000
2011		58,320,000	116,640,000
2012		58,320,000	58,320,000
2013		58,320,000	-

* current portion for 2008 loans

** current portion for 2009 loans

To summarize, the outstanding balances of the Term Loans are as follows:

	Outstanding Balances	
	2009	2008
1 st Tranche		100,000,000
2 nd Tranche	375,000,000	408,333,333
3 rd Tranche	233,280,000	291,600,000
Total Loans Payable	608,280,000	799,933,333
Less: Current Portion		
1 st tranche	-	100,000,000
2 nd tranche	33,333,334	33,333,333
3 rd tranche	58,320,000	58,320,000
	91,653,334	191,653,333
Loans Payable Local, net of current portion	516,626,666	608,280,000

17. DEFERRED CREDITS

This account consists of:

	2009	2008
Interest earned but not collected	526,935,631	384,317,437
Unearned income from well drilling contracts	169,966,980	7,329,779
Deferred income from housing loans	18,044,139	13,990,591
Unearned income from engineering study	708,702	4,199,396
	715,655,452	409,837,203

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.

18. 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 in by the National Government as of 1993.

In early 2009, Senate bill No. 2486 was sponsored by Senator Ramon Bong Revilla, Jr. It sought to increase the authorized capitalization of LWUA from P2.5 Billion to P25 Billion and its domestic and foreign borrowing ceiling from P1 Billion and US\$ 500 Million to an aggregate of US\$ 900 Million. This LWUA bill is awaiting plenary debate, interpellation and approval on third and final reading in the Senate. It has already been certified by Her Excellency, President Gloria Macapagal Arroyo

as an Administration priority bill and is now considered as one of the Senate priority bills for legislation before the Senate will end its sessions on June 2010.

LWUA did not declare dividends for CY 2009 in view of its pending requests with the Department of Finance (DOF) for the exemption in dividend remittances. LWUA justified that they are in dire need of huge capital to finance its on-going projects and they met one of the conditions for requesting exemption which is a negative Retained Earnings.

19. 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.

20. 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.

21. PRIOR YEARS' ADJUSTMENTS

Details of this account are as follows

	2009	2008
Foreign exchange losses	32,354,477	---
Engineering Services	11,812,873	---
Penalty Billings to WDs	643,323	---
Personal Services	1,023	(20,000)
Interest	---	129,226,926
Penalty & Interest billings to WDs	(4,864,810)	27,848,280
Adjustments for Operating expenses	---	2,617,200
Adjustments for taxes	(69,019,434)	---
Allowance for bad debts	---	345,672
Adjustments for operating expenses	(21,022,189)	---
Advances by the Bureau of Treasury	(7,204,326)	---
Net adjustment	57,299,063	160,018,078

22. MISCELLANEOUS INCOME

Details of this account are as follows:

	2009	2008
Pre-termination fees	11,350,207	34,378,650
Billed foreign currency adjustments	-	6,602,617
Miscellaneous fees from reproduction, Xeroxing, sale of car stickers, etc.	4,452,701	6,634,237
	15,802,908	47,615,504

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

23. OPERATING EXPENSES

This account consists of:

	2009	2008
PERSONAL SERVICES		
Other bonuses and allowances	346,227,979	247,986,371
Salaries and wages – Regular	157,133,908	146,209,684
Additional compensation (ADCOM)	98,762,048	88,854,864
Other personnel benefits	32,066,065	28,893,976
Life and retirement insurance contributions	18,658,422	16,965,420
Personnel Economic Relief Allowance (PERA)	14,502,874	14,853,315
RATA	14,993,852	11,298,469
Clothing / uniform allowance	3,561,160	3,407,625
PHILHEALTH contributions	1,791,225	1,551,812
PAG-IBIG contributions	679,928	809,592
ECC contributions	728,143	739,870
Terminal leave benefits	696,872	515,198
Honoraria	180,600	72,276
	689,983,076	562,158,472

MAINTENANCE AND OPERATING EXPENSES

Bad debts	274,734,633	303,448,913
Professional Services	43,118,200	27,177,917
Confidential, intelligence, extraordinary and miscellaneous expenses	38,217,958	26,586,469
Depreciation	25,181,151	13,486,872
Travelling	22,514,688	11,507,284

	2009	2008
Taxes, insurance premiums and other fees	12,108,495	9,163,905
Utility expenses	12,029,521	14,597,509
Subsidies and donations	8,053,946	10,289,009
Repairs and maintenance	6,710,405	7,353,972
Advertising expenses	5,086,743	3,011,266
Supplies and materials expenses	4,632,278	15,898,794
Communication expenses	3,066,167	2,243,486
Training and scholarship expenses	3,019,654	1,395,020
Rent expenses	777,010	767,994
Subscription expenses	673,903	87,771
Other maintenance and operating expenses	2,252,960	1,470,584
	462,177,712	448,486,765
	1,152,160,788	1,010,645,237

24. FINANCIAL EXPENSES

This account consists of:

	2009	2008
Interest Expense	484,880,579	398,968,647
Bank Charges	927,029	324,662
	485,807,608	399,293,309

25. INCOME TAX EXPENSE

Components of income taxes are as follows:

	2009	2008
Current tax	106,730,540	299,351,777
Income tax benefit	(82,420,390)	(106,207,119)
Deferred tax	-	-
	24,310,150	193,144,658

Numerical reconciliation between tax expense and the product of accounting income multiplied by the tax rate of 30% in 2009 are as follows:

	2009	2008
Accounting Income	93,609,176	561,559,556
Tax expense at 30% for 2009, 35% for 2008	28,082,753	196,545,845
Tax effect of non-deductible interest expense	2,911,840	2,431,245
Tax effect on non-taxable interest income	(6,684,443)	(5,832,432)
	24,310,150	193,144,658

Details of Current tax are as follows:

	2009	2008
Sales/ Revenue/ Receipts/ Fees	1,665,990,814	1,851,648,065
Less: Cost of Services	495,943,752	398,082,970
Gross Income from Operations	1,170,047,062	1,453,565,095
Non Operating , Taxable Other Income	40,044,297	101,570,000
Total Gross Income	1,210,091,359	1,555,135,095
Less: Deductions	854,322,893	699,844,305
Net Taxable Income	355,768,466	855,290,790
Tax Rate	30%	35%
Current Tax	106,730,540	299,351,777

The computed current tax does not include the deferred tax on Current Year 2009 "Bad Debts" expense.

Details of the computed Income Tax Benefit are as follows:

	2009	2008
Allowance for Bad Debts end	2,216,090,118	1,941,355,485
Less : Allowance for Bad Debts, beginning	1,941,355,485	1,637,906,573
Provision for bad debts (debited to Deferred Tax Asset account)	274,734,632	303,448,912
Tax Rate	30%	35%
Income Tax Benefit	82,420,390	106,207,119

The computed Income Tax Benefit does not include the CY 2009 gain on foreign exchange.

26. AUTHORIZATION TO ISSUE FINANCIAL STATEMENTS

The LWUA Board of Trustees adopted on March 09, 2010 Resolution No. 121 Series of 2010. Such authorized the issuance of LWUA's Calendar Year 2009 Financial Statements, in compliance with the Philippine Accounting Standard No. 10.

27. INTERESTS AND OTHER DEBT SERVICING CHARGES

The amounts presented in the Cash Flow Statement (P419.8M for 2009 and P519.9M for 2008) represent payments for interests and guarantee fees on LWUA's existing loans. These were classified consistently as operating cash flows. Such events enter into the determination of net income (loss) for the period, and is therefore classified within the Cash Flows from Operating Activities.

28. PROCEEDS FROM GOVERNMENT SUBSIDIES

The amounts represent government subsidy support fund for the development of various water supply system projects given to LWUA thru the Department of Health (DOH) and the Department of Public Works and Highways (DPWH). These were neither presented under the Income Statement nor under the Statement of Changes in Equity. Rather, the same was taken up as credit to the account "Liability for Special Funds" upon receipt of the fund and debited upon release to the beneficiary water districts.

In 2009, nine (9) cash subsidies were received from the National Government thru the issuance by the DBM of the Sub-allotment Release Order (SARO) namely:

SARO Date	SARO Number	Amount
Feb. 05/09	ROC -09-00757	P 195.000
Nov. 19. 2008	A-08-09271	28.412.161
Nov. 19. 2008	A-08-09271	34.019.063
Nov. 19. 2008	A-08-09271	5.606.901
March 02. 2009	A-09-00673	211.067.500
March 02. 2009	A-09-00673	211.067.500
July 29. 2009	BMB-D-09-7019	400.000.000
Aug. 04. 2009	D-0905960	50.000.000
Sept. 25.,2009	F-09-07225	1,500,000,000
Total Govt.Subsidies		2,440,368,125

29. EFFECTS OF EXCHANGE RATES DIFFERENCES ON CASH AND CASH EQUIVALENTS

The effects of exchange rates differences on cash and cash equivalents were taken up as a direct charge against the liability account "Adjustment in Foreign Exchange Values."

30. DIVIDENDS PAID

The amount of ₱187,600,000 paid in 2008 represents dividends for current year 2005 (₱50,000,000) at the rate of 14% or an amount not lower than ₱50,000,000 , and for CY 2006 (₱137,600,000) at the rate of 24% as approved under Executive Order No. 740 dated July 16, 2008.

LWUA did not declare dividends for CYs 2009 and 2008 in view of its pending requests with the Department of Finance (DOF) for the exemption in dividend remittances. LWUA justified that they are in dire need of huge capital to finance its on-going projects. Because of the magnitude of LWUA's program for the next five to ten years, using the funds for the payment of dividend will significantly deprived LWUA of project financing.

Pursuant to LWUA Board Resolution No. 446 dated September 15, 2009, LWUA will defer payment of dividend until it shall have accumulated enough funds for the proposed increase in capitalization from P2.5B to P25 B

COMMENTS AND OBSERVATIONS

COMPLIANCE AUDIT

1. **Miscellaneous Receivables arising from claims from the Government of the Philippines amounting to ₱1.254 billion has no legal basis or document to support the claim contrary to the Accounting Principle on Objectivity. There was only a commitment on the part of the Office of the President thru the Presidential Social Fund to release the Subsidy to LWUA which represents 40% of the ₱3.166 billion net realizable value of Receivables as of December 31, 2009.**

LWUA was mandated to implement the Water Supply Projects under the President's Priority Program on Water (P³W) for waterless municipalities/ barangays and to grant financial assistance for the improvement of the water supply system of existing water districts. The funding for the Projects shall be sourced from the Non-LWUA Initiated Fund (NLIF) or those funds initiated by legislation or from other sources to finance water supply projects with LWUA, as the implementing agency. The grant and loan component of the financial assistance will be determined during the project construction or project completion.

For CY 2009, the LWUA Budget Division prepared Budget Allocation Clearance for 648 Water districts in the total amount of P 9.7 billion. On the other hand, in CY 2009 LWUA received funds from the National Government Agencies in the total amount of P2,440,368,125.00, of which P1.279 billion has been already released as financial assistance to Water Districts, summarized as follows :

Source	Received	Released	Balance
Department of Health	1,500,000,000	938,380,121.97	561,619,878.03
DPWH	490,173,125	294,147,689.43	196,025,435.57
Bureau of Treasury	450,195,000	47,336,282.00	402,858,718.00
	<u>2,440,368,125</u>	<u>1,279,864,093.40</u>	<u>1,160,504,031.60</u>

Meanwhile, the Office of the President (**OP**) , thru its Presidential Social Fund, (**PSF**) verbally committed to release the ₱6 billion for the Project. However, as there was no PSF received during the year, the LWUA Corporate fund was instead used for the ₱1,254,061,267.63 released to various Water Districts and these were charged to Receivable Miscellaneous–Miscellaneous Claims (Government of the Philippines). However, the receivable from the Government of the Philippines (GOP) has no basis or legal document to support the claim except for the verbal commitment from the Office of the President of the Philippines as explained by LWUA management. This amount represents 40% of the ₱3,166,010,825 net realizable value of the Receivables as of December 31, 2009.

We recommended that the releases of subject funds amounting to P1,254,061,267.63 as of December 31, 2009 charged against the account – Receivables Miscellaneous - Miscellaneous Claims (GOP) be supported by valid document or legal basis which includes, among others, the Memorandum Agreement between and among, LWUA, the Office of the President and the WDs to be submitted to COA for evaluation. But, if the OP will not release the PSF, we recommend reversal of entries and the releases to the water districts will be treated as a loan receivable.

We also recommended that Financial Grants/Assistance granted to Water Districts be duly funded from the intended sources. Corporate fund utilized for other purpose should have prior approval from the LWUA Board of Trustees.

Management explained that LWUA will pursue the collection of the Presidential Social Fund (PSF) from the National Government as the said fund is already committed for the implementation of Water Supply Project under the President's Priority Program on Water (P3W) for waterless municipalities/ barangays and the grant of financial assistance for the improvement of the water supply system of existing water districts.

In the event the release of PSF will no longer be feasible in view of the change in the administration, LWUA will then have to find ways to meet its financial commitments to the water districts, municipalities and/ or barangays. We recommend, therefore, that corresponding adjustments be made accordingly in LWUA's book of accounts.

2. The purchase of the 60% common shares of Express Savings Bank Inc. (ESBI) for P 80M and the payment of P 400M for Stock Subscription by LWUA to increase the authorized capital stock of ESBI were contrary to Section 15 of the General Appropriations Act for FY 2009 and the required approval for the quasi-banking authority of ESBI is still pending with the Monetary Board of BSP.

In June 2009, LWUA purchased sixty percent (60%) of the total issued and outstanding common shares of Express Saving Bank Inc. (ESBI), a private banking institution. LWUA paid P80,003.070 for the 445,377 shares to the various owners of these shares. Interviews with LWUA Management and ESBI officials and also based on news item posted in the Philippine Daily Inquirer on July 4, 2009 reveal that Express Savings Bank Inc. is a thrift bank located at JP Rizal Avenue, Cabuyao, and Laguna. It is currently under a BSP-administered rehabilitation and that the Forum Pacific Inc. is selling its remaining common shares subject to the approval of BSP's policy making Monetary Board.

LWUA's decision to invest on a thrift bank that would later be converted into a quasi bank and, to be later named as the Water and Energy Bank (WE BANK) was anchored on the following grounds:

The Chairman of LWUA initially sought authority for the creation of a Water Development Bank which shall be a wholly-owned subsidiary of LWUA. However,

BSP Deputy Governor Nestor A. Espenilla, Jr. informed LWUA that BSP is currently enforcing a moratorium in the establishment of new banks and advised LWUA to instead consider acquiring an existing financing company which for the purposes of addressing LWUA's requirements may thereafter apply for a quasi-banking authority with BSP.

The BSP Deputy Governor in his letter dated April 17 2009 informed LWUA that under the provision of Section 8 of RA 7721, as implemented by Section 14 of BSP Circular No. 51 dated October 14, 1994, LWUA may be allowed to own up to 60% of the voting stock of a domestic bank.

The action taken by LWUA in acquiring 60% of outstanding common shares of Express Saving Bank is likewise supported by a legal opinion from the Office of the Government Corporate Counsel (OGCC) dated September 23, 2009 quoted as follows.

“xxx. It is our considered view that LWUA's equity investment of approximately 60% in Express Saving Bank Inc. is within its corporate powers to do pursuant to Sections 50,59 and 71 of PD No. 198, as amended”

In this connection, A Deed of Absolute Sale was executed by and between the original owners (as the seller) and the LWUA (as the buyer) of shares divested by the original owners. Manager's checks were made on June 5 to 10, 2009 payable to the Sellers in the total amount of P80,003,070.50

Pursuant to applicable banking regulations relative to transfer of shares in a domestic bank resulting in a change in majority ownership or control, ESBI requested approval by the Monetary Board of the acquisition by LWUA of 60% of the voting stock of the Bank. The bank also applies for a quasi-banking authority with BSP. However, one of the requirements in securing BSP authority for a thrift bank to engage in quasi-banking function is that the entity must have complied with the minimum adjusted capital accounts of at least P650 million or such amounts as may be required by the Monetary Board in the future.

Thus, to increase the authorized capital stock of ESBI and pursuant to LWUA Board Resolution No. 336, series of 2009, LWUA transmitted the Manager's Check in the amount of P400 million last August 25, 2009 in favor of United Coconut Planters Bank-Sta. Rosa Branch, Laguna for deposit to ESBI Current Account No. 231-000507-7. This was acknowledged under ESBI Official Receipt No. 56928 and treated by LWUA as advance payment to the capital subscription pending approval by the BSP and registration with the Securities and Exchange Commission of the amendment to the Articles of Incorporation increasing the capital stock of ESBI. Confirmation with the ESBI disclosed that the P400M was treated as a liability account – Deposit for stock Subscription

As of this date or nine months after the infusion of additional capital by LWUA, the quasi-banking authority is still pending approval by the BSP

Examination of the records pertaining to the subject investments disclosed the following observations.

2.1 The Investments to ESBI totaling P480 million were contrary to Section 15 of the General Provisions of General Appropriations Act (GAA) for Fiscal Year (FY) 2009

The investments to ESBI totaling P480 million paving the way for the creation of LWUA Subsidiary-Water Energy Bank are contrary to Section 15 of the General Provisions of General Appropriations Act (GAA) for Fiscal Year (FY) 2009 which states that:

“Sec 15. Restrictions on the use of government funds. No government funds shall be utilized for the following purpose xxx. **(f) To be invested in non-government securities, money market placements and similar investments or deposit in private banking institutions. The provisions of this section shall also apply to Government Owned and Controlled Corporations.** xxx (emphasis ours)”

This recent provision is a reiteration of Section 16 of the General Provisions in the previous General Appropriations Act of FY 2008 and 2007. .

Management commented that the amount used in the purchase of the 60% shares at ESBI came from LWUA's own corporate funds. Hence, it is inappropriate to apply Section 15 of the GAA for FY 2009. It was also explained that the acquisition of said shares at ESBI has statutory and legal bases considering the opinion rendered by the Office of the Government Corporate Counsel (OGCC) and the approval from the Office of the President dated October 14, 2009.

Although the criterion cited was taken from the General Appropriations Act, it was provided that the restriction was on all government funds and that the provision shall also apply to Government Owned and Controlled Corporations. LWUA's corporate funds were also government funds, hence subject to such restrictions.

We recommended that Management secure from the Office of the President exemptions from the provision of Section 15 of the General Provisions of the 2009 General Appropriations Act in investing LWUA funds to a private banking institutions. It also recommended that the approval of the Monetary Board be immediately secured for ESBI to engage in a quasi – banking function.

Likewise, we also requested management to furnish us with the certified copies of the following documents:

1. Certificates of stocks / shareholdings of LWUA issued by ESBI / BSP for the P480M purchase / investments.

2. Branching Authority from BSP issued to LWUA for the latter to operate a branch of the ESBI bank/WE bank within the LWUA premises. ESBI is currently operating within the LWUA premises, as Extension of its main Branch.
3. Registration with the SEC of the amended Articles of Incorporation of ESBI/WE Bank.
4. BSP's Monetary Board approval on the P80,003,070.50 transfer of shares in compliance with BSP Circular No. 309 dated Nov 16, 2000 and the P400,000,000 advances which aimed to satisfy the capital subscription requirement of ESBI.
5. Approval by the President of the Republic of the Philippines for the creation of WE Bank.

LWUA commented that as to documentation requirements, LWUA will require ESBI to execute the necessary documents to comply with the audit observations.

2.2 Investments / advances to ESBI are considered disadvantageous to LWUA

The LWUA investments/advances would improve the current capital inadequacy ratio of ESBI and would meet the capital requirements imposed by the BSP as part of ESBI's Rehabilitation Program. On the other hand, such investments are considered disadvantageous on the part of LWUA because for the six months period June-December 2009, no income was earned by LWUA from such investments/advances. The amount of P480 million could have earned P14.4 million to P 33.6 M per annum in conservative interest of 3% to 7% per annum had LWUA invested the amount in high yielding government securities, government bonds and/or time deposit with Land Bank of the Philippines, Treasury Bills with BSP or other government depository banks. The amount of P480 million and the interest earnings thereof could also be used as loans and/or financial assistance to Water Service Providers or eligible Water Districts at stipulated interest rates.

Management explained that as an investment in ESBI, the total amount placed by LWUA shall earn interests and/or dividends which ESBI shall declare at appropriate time.

We recommended that LWUA should consider terminating the investments and institute remedial measures to recover the return of the investments. If the investment will not be recovered, appropriate charges should be filed against LWUA officials responsible for investments that could not be recovered.

2.3 Advance payment of P400 million for the capital subscription of ESBI was not supported with any Memorandum of Agreement or Certificates of Investment that would provide protection for LWUA's investment/advances.

We also noted that the advance payment for stock subscription to the increase in the authorized capital of ESBI in the amount of P400 million was not supported with any Memorandum of Agreement between LWUA and ESBI or Certificate of Investments.

There is no Terms of Reference executed to provide protection for LWUA's investment/advances in case the application for Quasi-Banking Authority is disapproved by BSP or the amendment to the Article of Incorporation increasing the Capital Stock of Express Saving Bank, Inc is not registered by SEC. Only OR No. 56928 dated August 26, 2009 was issued by ESBI evidencing receipt of the advances of P400 million by LWUA. Lastly, ESBI failed to provide copies of certification of stocks/shareholdings of LWUA for its investments.

Management justified that by virtue of its acquisition of the majority shareholdings, LWUA has practically taken over and maintains effective control over the management and operation of the bank. ESBI's Board of Directors is chaired by LWUA Chairman Prospero A. Pichay, Jr. and the Acting President is LWUA Acting Deputy Administrator for Finance, Wilfredo M. Feleo. Hence, the concern that LWUA's investments / advances are not protected would be premature. Nonetheless, as to the documentation requirements, LWUA will require ESBI to execute the necessary documents to comply with the audit observations.

We recommended for the return of the initial investments of P80M and the P400 million additional infusion of capital with the ESBI pending the approval of the BSP / SEC / OP.

3. Non-realization of the proposed and DBM approved Corporate and other income; bigger government subsidies and borrowings; and actual expenditures for Personal Services and Maintenance and Other Operating Expenses exceeding the DBM-approved Corporate Operating Budget of LWUA for CY 2009 by at least P370.48 million.

3.1 Non-realization of the proposed and DBM approved Corporate income and other income resulted in bigger government subsidies and borrowings.

Comparison of the actual with the proposed and DBM approved corporate and other income disclosed that there was a shortfall of P1,931,454,178, computed as follows:

Interest income	1,498,188,45
Service income	195,852,98
Fines and penalties	18,948,47
Miscellaneous income	15,802,90
Total	1,728,792,82
Proposed and DBM Approved Corporate and Other Income	3,660,247,00
Shortfall	(1,931,454,178)

We also observed the actual government subsidies and borrowings as indicated in the LWUA Cash Flow Statement exceeded the proposed and DBM approved subsidies and borrowings by P430,615,911 summarized as follows:

Actual	
Proceeds from PVB borrowings	500,000,000
Proceeds from government subsidies	2,440,368,125
Proceeds from long-term debts	1,114,786
Total	2,941,482,911
Proposed and DBM approved	
National Government subsidies	2,200,000,000
Foreign borrowings	110,867,000
Local borrowings	200,000,000
Total	2,510,867,000
Difference	430,615,911

LWUA explained that income and receipts are to be understood as different entities. The total actual income per accounting records amounting to P1,728,792,822 represents amounts received or receivable that would be sourced from earning profits. On the other hand, the total targeted receipts of P3,660,247,000 include amounts received from sources that do not form part of LWUA profits as follows:

<u>Projected Receipts from</u>	<u>(in Peso millions)</u>
Bonds Floatation	1,250.000
Collection of principal loans from WDs	531.560
Redemption / Withdrawal of AR bonds	79.733
Reserve deposits	25.680

In an effort to raise capital funds for relending operation via loans to water districts and to accelerate the implementation of water supply projects to attain the Millennium Development Goal of providing increased access to potable water supply by CY 2015, LWUA planned to float bonds in the total amount of P6.350 Billion, the 1st tranche of which was in CY 2009.

This strategy of raising capital funds is in view of the full capitalization of LWUA, limited borrowing authority from domestic sources, and the lack of national government support fund for LWUA Projects. It will be recalled that the last government subsidy that was received by LWUA for its projects was for CY 2000.

Further, bond floatation is not a revenue or income source, thus should not be lumped under the "Proposed and DBM approved Corporate and Other Income."

Management has taken note of the herein audit recommendation and agreed that it will do everything possible to realize the proposed revenue targets so as not to rely heavily on subsidies from the national government, and from foreign and local borrowings

Based on Cash Flows for the year ended 2009, LWUA was not able to generate Cash from the above sources and this strategy of raising capital funds was not achieved in 2009.

We reiterate our recommendation for management to exert more effort to realize both income and other sources of receipts.

3.2 Actual expenditures for Personal Services and Maintenance and Other Operating Expenses exceeded the DBM-approved Corporate Operating Budget of LWUA for CY 2009 by at least P370.48 million.

Despite the short fall in the corporate and other income, as discussed in Observation No. 3.1, we noted that the actual expenses incurred for Personal Services was more than the corporate budget proposed and submitted by the LWUA to DBM by P143,909,076, summarized as follows:

Actual expenses for Personal Services	689,983,076
Proposed Budget for Personal Services	546,074,000
Difference	143,909,076

On the other hand, examination of the Detailed Statement of Income and Expenses for the year ended December 31, 2009 showed that the actual expenses exceeded the total DBM approved budget for Personal Services (PS) and Maintenance and Other Operating Expenses (MOOE) by P370,479,004. Consider:

	PS	MOOE	TOTAL
Approved COB	261,857,000	219,909,000	481,766,000
Less: Actual Expenditures	689,983,076	162,261,928	852,245,004
(EXCESS) SAVINGS	(428,126,076)	57,647,072	(370,479,004)

The excess on Personal Services of P428,126,076 can be attributed to allowances and bonuses that were already disallowed by DBM but were still given by LWUA to its officials and employees as follows:

Overprovision	197,056,083
Not included in the DBM Approved budget	139,553,010
No Legal Basis	96,740,855
Chargeable Against Savings	14,594,629
Savings	(19,818,501)
Excess of Personal Services over DBM approved Budget	428,126,076

3.2.1 Overprovision

The overprovision of P197,056,083 was accounted for in the footnote of the DBM approved LWUA COB, as follows:

Personal Services Account	DBM Remarks	Excess Amount
Cost of living allowance	Already integrated in basic salary per DBM National Budget Circular (NBC) No. 2005-502 dated October 26, 2005	P 60,715,825
Year end bonus/ 13 th month pay	Equivalent to one month salary	60,357,542
Meal subsidy	P66/month/employee. Benefit should be given only to incumbents as of June 30, 1989 per LOI No. 97	18,833,655.
Salaries and Wages	Excess provision of salaries of 616 permanent positions with SSL 3 rate. Authorized contractual is for 33 positions only as approved per DBM letter to LWUA dated June 15, 2009	15,561,008
Christmas bonus	Equivalent to one month salary	14,594,252
Medical benefits/Hospitalization	P2,500/year/employee. Benefit should be given only to incumbents as of June 30, 1989 per LOI No. 97	9,775,705
Amelioration Allowance	Already integrated in basic salary per DBM National Budget Circular (NBC) No. 2005-502 dated October 26, 2005	9,553,659
Representation and Transportation (for acting capacity)	Excess provision of RATA, already included in the computation of RATA	6,704,252
Clothing/Uniform allowance	P4,000/year/employee	707,160

Personal Services Account	DBM Remarks	Excess Amount
Philhealth	P2,250/year/employee	253,025
Total Overprovision for Personal Services		P 197,056,083

3.2.2. LWUA Personnel benefits not included in the DBM approved budget

Another footnote on the DBM approved budget also indicated that the following LWUA personnel benefits are not included, and therefore has no legal basis for payment but were still given by LWUA to its officials and employees:

Personal Services Account	Amount
Cash gift for birthday celebrants 2009	P 1,467,000
Grocery Allowance	39,338,667
Performance Incentive bonus	25,723,215
Educational allowance	23,864,000
Step increment	3,702,262
C N A 2008	45,457,866
Total Personal Services not included in the DBM Approved Budget	P 139,553,010

3.2.3. Personnel benefits with no legal basis

Footnote to the DBM approved budget categorically stated that the following LWUA personnel benefits given to its officials and employees have no legal basis:

Personal Services Account	Amount
Anniversary incentive bonus	P 47,857,958
Year end financial assistance	25,072,987
Mid year financial assistance	21,349,249
Executive check up	2,460,661
Total Personal Services with no legal basis	P 96,740,855

3.2.4. Personnel benefits chargeable against savings

We also noted in the footnote on the DBM approved LWUA COB that the following personnel benefits given to its officials and employees shall be chargeable against savings:

Personal Services		
Account	DBM Remarks	Amount
Provident fund	Chargeable against savings per B.C. No. 2008-3	P 13,869,029
Loyalty awards	Chargeable against savings per Memorandum Circular No. 17, s. 1999	545,000
Honorarium (Bids and Awards Committee, Project Committees)	Chargeable against specific collections and savings per Budget Circular (B.C.) Nos. 2004-5A and 2007-3	180,600
Total Personal Services Chargeable Against Savings		P 14,594,629

It is worthy to note that there were savings incurred over the following DBM approved budget for Personal Services to answer for the above expenses:

Terminal Leave and Gratuity Pay	P 9,075,858
Rice Allowance	3,212,375
GSIS Life and Retirement Premiums	2,308,878
Cash Gift	2,181,000
PERA and Additional Compensation	1,841,127
Hazard Pay	780,000
Children's allowance	145,690
Pag-Ibig	137,271
ECC / S I F	88,957
Board expenses (Per Diem)	46,945
Laundry allowance	400
Total Savings for Personal Services	P 19,818,501

LWUA incurred savings of P85,289,511 on some Maintenance and Other Operating Expenses but there were also some MOOE incurred during the year that were in excess of the DBM-Approved COB in the amount of P27,642,439 or a net savings of P57,647,072.

No supplemental budget was prepared and approved by DBM on the increase in the operating budget as required under Section 3.3 of DBM Corporate Budget Circular No. 20 dated April 27, 2005 quoted as follows:

“Any increase in the approved principal COB in the course of the budget year as may be warranted by additional Corporate receipts shall

require submission and approval of a supplemental COB to cover the additional expenditures.”

This audit observation was already noted and discussed with LWUA management in prior years. Management cited various legal bases for the grant of employees’ benefits and allowances. However, based on the DBM approved Corporate Operating Budget of LWUA for Calendar Year 2009, these allowances and benefits have no legal basis, thus disapproved by DBM.

Management comments in the above audit observations are quoted as follows with respective rejoinder from COA.

Management Comment 1

For calendar year 2009, LWUA was prompted to operate within the limits of the LWUA Board- approved Corporate Operating budget (COB) pending the approval of the said COB by the Department of Budget and Management (DBM) . Unfortunately, the approval of the COB by the DBM was forwarded to LWUA only on February, 2010.

COA Rejoinder:

As cited in the audit observations, it was noted that the actual expenses incurred for Personal Services were more than the LWUA Board-approved corporate budget proposed and submitted by the LWUA to DBM, contrary to their comments that LWUA operate within the limits of the LWUA Board – approved COB.

Management Comment 2

On the grant of bonuses or financial assistance for CY 2009, we maintain our position that the said grant is a tradition and recognized corporate practice since 1977 primarily to ease the financial burden of the LWUA officers and employees. In conformity with the principle of ‘non-diminution of salaries, allowances and financial assistance’ said benefits were given on a regular basis and on the basis of the provisions of Republic Act No. 8041, otherwise known as the ‘Water Crisis Act of 1995’ and Executive Order No. 286. The payments of the said benefits for CY 2009 were made pursuant to applicable LWUA board resolutions.”

Xxx

“ The principle of non-diminution of pay and benefits was applied by the Supreme Court in numerous cases brought before it. In Tiangco, et al, vs. Hon. Leogardo, Jr., etc., et al 122 SCRA 267 (1983) wherein it was held that any benefit and supplement being enjoyed by employees cannot be reduced, diminished, discontinued or eliminated by the employer. Further, the principle of non-diminution of benefits is founded on the Constitutional mandate to protect the rights of workers and to promote their welfare and to afford labor full protection”

Even Section 5 of Executive Order No. 286 (Reorganizing MWSS and LWUA pursuant to the National Water Crisis Act of 1995) dated December 5, 1995 and Section 7 of Republic Act No. 8041 recognized the principle of non-diminution of pay and benefits when both assured the continuous receipt by LWUA officials and employees of their present salaries and benefits.

COA Rejoinder

The National Water Crisis Act of 1995 may provide that it shall not result in the diminution of the present salaries, benefits of the personnel in the MWSS and the LWUA, and the same shall be exempted from the provisions of RA 6758 otherwise known as the Salary Standardization Law. However the National Water Crisis Act of 1995 requires that the revised compensation should be subject to the final approval of the President. And as an alter ego of the President of the Philippines, DBM ruled that these benefits and allowances have no legal basis.

Management comment no. 3

With respect to the grant of certain benefits , like meal subsidy, medical benefits, to LWUA employees hired after June 30, 1989, the Supreme Court ruled in Irene V. Cruz, et. Al vs. COA G.R. No. 134740. Oct. 23, 2001) that the classification of COA as to who were entitled to the benefits and excluding those employees hired after October 31, 1989 has no legal basis. It was held that the date of hiring an employee cannot be considered as a substantial distinction. Citing Section 2, RA 6758, the SC further held that the date of hiring is not among the factors that shall be taken into consideration in fixing compensation or granting benefits. Any distinction among employees must be based on substantial differences, that is, level or rank, degree of difficulty and amount of work. The SC stated that to discriminate against some employees on the basis solely of date of hiring is to run against the progressive and social policy of the law.”

COA Rejoinder

It was DBM who ruled that the benefit should be given only to incumbents as of June 30, 1989 per LOI No. 97 and that the salary being received by the employees hired after October 31, 1989 already incorporate such benefits and a allowances.

Management Comment no. 4

The grant of educational / scholarship subsidy, specifically authorized under Memorandum Circular No. 174 issued on May 13, 2009 by the Office of the President of the Philippines wherein all government agencies, including government owned and controlled corporations, state universities and colleges, are enjoined to provide, among others, scholarship programs for their employee’s children.

COA Rejoinder:

Educational allowance granted by LWUA was not included in the LWUA Board-approved Corporate Operating Budget (COB), thus not included in the DBM approved COB.

Management Comment No. 5

The grants of cash gift for birthday celebrants, grocery allowance and C N A Incentive for 2008 are all covered by LWUA Board Resolutions and in accordance with the Collective Negotiation Agreement (CN A) for 2007 – 2010 and its Supplemental Agreement entered into by and between LWUA and LWUA Employees Association for Progress (LEAP). The said agreements were entered into pursuant to the 1987 Philippine Constitution concerning the rights of government workers to form unions and to collectively negotiate, Executive Order No. 180 dated June 1, 1987 and Civil Service Commission (CSC) Circular No. 55 series of 1990.

COA Rejoinder

Section 5.4.1 of DBM Budget Circular No. 2006-01 dated February 1, 2006 provides that all existing cash incentives in the CNAs in the form of allowances and benefits such as staple food allowance, rice subsidy, grocery allowance, inflation allowance, relocation allowance, SONA bonus, bonuses other than the year-end benefit authorized under RA 6686 as amended by RA 8441 etc. shall be consolidated into a single cash incentive and shall be referred to and collectively paid as the CNA Incentive. However, LWUA is paying grocery allowance, cash gift for birthday celebrants, rice allowance in addition to payment of CNA incentives.

We therefore reiterate our recommendation that LWUA should incur expenditures within the limits of the DBM approved budget. Any increase in the approved Corporate Operating Budget in the course of the budget year shall require submission and approval of a supplemental COB to cover the additional corporate expenditures. Management should also strictly monitor all its expenses so that the DBM approved budget would not be exceeded.

In the absence of the legal basis and proper authorization for the payment of additional personnel benefits as discussed in the previous paragraphs, we recommended that granting of personnel benefits without legal basis should be discontinued and the officials and employees responsible and accountable should be required to refund the amount they received in excess of the authorized and approved rates and those without legal basis.

- 4. Actual Extraordinary and Miscellaneous Expenses for CY 2009 was in excess of DBM-approved budget by P2.588 million. Furthermore, Extraordinary Miscellaneous Expenses (EME) for the period January to December 2009 in the total amount of P25.3 million were not supported by receipts and/or documents evidencing disbursements as required under Section 3 of COA Circular No. 2006-001 dated January 3, 2006.**

Actual extraordinary and miscellaneous expenses for CY 2009 exceeded the LWUA allocated DBM-Approved Budget for Extraordinary and Miscellaneous Expense by P1,218,022.27, as follows:

LWUA allocated and DBM-Approved Budget for Extraordinary Expense	24,050,000.00
Actual Extraordinary Miscellaneous Expenses	25,268,022.27
Excess	(1,218,022.27)

The excess of actual over the DBM approved budget is accounted for as follows:

Excess of expenses incurred by the four (4) Members of the LWUA Board of Trusted over the DBM approved budget of P7,000,000	1,800,000.00
Total savings of the other Offices of Deputy Administrators including the Department Manager over the DBM approved budget	(584,009.08)
Payment to PLDT of charged to Extraordinary Miscellaneous Expenses	2,031.35
Excess	(1,218,022.27)

Further analysis of the reimbursement for Extraordinary Miscellaneous Expenses reveals that LWUA officials reimbursed their monthly reimbursement of extraordinary miscellaneous expense allocation at the beginning of the month without the required official receipts and/or other documents evidencing the disbursements. Only a certification was attached to the claims attesting for the incurrence of the extraordinary miscellaneous expenses of P25,265.990.92.

The certification was issued in compliance with the requirements of COA Circular No. 2006-001 which provides that the claim for reimbursement of such expenses may be supported by "other documents evidencing disbursements" in lieu of receipts. However, based on CGS-Cluster B Decision No. 2010-003 dated April 13, 2010, pertinent to ND No. 09-001-GF (06) issued on July 21, 2009 disallowing payment of EME for CY 2006, a certification issued by the official concerned for purpose of claiming EME cannot be construed as "other documents evidencing disbursement". It was explained in the Cluster Director Decision that a certification is not of the same class as receipt because a receipt is issued by a third person while a certification is issued by a claimant, usually self serving. Moreover, certifications are not evidence of disbursements but are just assertions made by the claimant that they have spent a fixed amount every month for meetings, seminars, public relations and the like.

Moreover, it was also observed that two LWUA officials reimbursed their monthly extraordinary miscellaneous expenses allocations both as Acting Manager for Area Operations - Visayas for the period September to December 2009. The claims were already deliberated by the LWUA Administrative Services and Legal Department. It was recommended that the claim for EME of the second claimant be charged to the EME of an unfilled Area Operations Manager - Luzon North. However, the LWUA

Legal Department Manager opined that the recommendation to grant EME to the second claimant for the months of September 2009 and onwards chargeable to the EME of another Area Operations Manager is not legally in order.

Meanwhile, analysis of reimbursement for Miscellaneous Expenses incurred by LWUA officials shows that P9,663,897 was the approved DBM-budget for all LWUA offices. Subsequently, LWUA Board Resolution No. 664 series of 2009 was issued approving the realignment of P1.916 million from the account of Public Information Expenses to Miscellaneous Expenses. Thus, total approved budget for Miscellaneous Expenses amounted to P11,579.897. However, the actual miscellaneous expenses incurred for the year totaled P12,949,935.29 or an excess of P1,370,038.29.

Our examination of reimbursement of Miscellaneous Expenses ending December 31, 2009 also revealed the following audit observations:

- a) Various reimbursements of official receipts from miscellaneous expenses were dated on days which fall on Saturdays, Sundays and Holidays.
- b) Reimbursement for various meeting expenses was supported with official receipt for purchases with no details of expenses; and purchases of various gift items from Mondo Shop.
- c) There were also reimbursements of expenses with undated official receipts and official receipts covering the year 2007/2008 and official receipts for take-out meals.
- d) Official receipts for KTV Bars were also included in the reimbursement for miscellaneous expenses.
- e) Also included in the reimbursement of expenses for various meetings were Official Receipts for the purchase of wines which are considered extravagant expenditures.
- f) There were also expenses reimbursed under the Miscellaneous Expenses that should have been appropriately categorized under regular budget allocation of LWUA such as:

- Matured A/R Bonds (Other Bank Fees)	503,113.76
- Cost of check booklets	40,450.00
- PLDT (Communication)	20,313.50
- Purchase of tires (Repairs/Maintenance)	5,050.00
- Adonis Gamba (Subscription & Publication)	4,572.00
- Hotel Vida-incidental expenses (Travel)	2,924.19
- Lodging House (Travel)	2,120.00
- Purchase of car mat	1,800.00
Repairs/Maintenance	
- Hotel accommodation (Travel)	1,000.00
- Purchase of computer mouse (Supplies)	150.00

We recommended that management should adopt the following remedial measures:

1. Limit the reimbursement of extraordinary and miscellaneous expenses within the approved amount of each Department/ Official.
2. Management should strictly comply with the provisions of COA Circular No. 2006- 001 dated January 3, 2006 specifically on adopting non-commutable or reimbursable basis for payment of extraordinary expenses and supporting the claims with receipts and/or other documents evidencing disbursement.
3. Categorize miscellaneous expenses within the contemplation of COA Circular No. 2006-001 Section II.
4. Make the necessary adjustment to reclassify the proper charging of miscellaneous expenses accounts.

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

Regarding Excessive amount of reimbursements over the DBM-approved budget –

Consistent with the existing provisions of COA Circular No. 2006-001, reimbursements for EME were made within the limits of the realigned budget as approved by the LWUA Board of Trustees for CY 2009. Attached are the Board Resolutions realigning Public Information Expenses to Miscellaneous Expenses.

On the Non-submission of receipts to support the claims for Extraordinary and Miscellaneous Expenses –

Management maintains its position as embodied in the Petition for Review filed on April 27, 2010 to reverse and set aside the Decision No. 2010-003 pertinent to ND No. 09-001-GF-(06) issued on July 21, 2009 disallowing payment of EME for CY 2006.

As to Reimbursement of Miscellaneous Expenses that should have been appropriately categorized under regular budget allocation –

Future charging of miscellaneous expenses against appropriate accounts will be considered.

The realignment of P1,916,000 made pursuant to Board Resolution No. 664 series of 2009 was already considered in the comparison between the approved budget and actual expenses under the Miscellaneous Expenses account. However, the P300,000 was not added to the budget for Miscellaneous Expenses as it pertain to the entire fees and costs for the incorporation of LWUA Consult Inc.

We also stand with our audit observation on the non- submission of official receipts to support claims for Extraordinary Expenses pending COA Decision on the Petition for Review submitted by LWUA.

5. Actual Expenses in the total amount of P2.4 million for Executive Check-Up of LWUA Board of Trustees and other LWUA Officials and Employees has no legal basis or approval from the Office of the President of the Philippines/Secretary of Budget and Management.

The proposed Corporate Operating Budget of LWUA for CY 2009 for the Executive Check-Up of LWUA Officials and the Hospital and Medical Benefits Board of Trustees in the amount of P2,830,000 and P350,000, respectively, were not approved by DBM as it has no specific legal basis.

CSC Memorandum Circular No. 17 series of 1989, requires that all government employees shall be required to undergo annual medical and physical examination to determine physical and mental fitness for continued employment. In this regard, Board Resolution No 15 series of 1977 was issued providing/establishing and authorizing for an executive medical check-up program for LWUA senior officials from the rank of assistant department manager up on a yearly basis.

However, for CY 2009, DBM disapproved the granting of Executive Check-Up to all LWUA Officials including the LWUA Board of Trustees. Only the Medical Benefits of P2,939,500 was allowed by DBM which shall be given only to incumbents of LWUA as of June 30, 1989 at P2,500.00/year/employee. Despite the disapproval of the Executive Check-Up, some LWUA Officials including the Board of Trustees still avail the Annual Executive Check-up in the total amount of P2,460,660.

Management explained that the Executive Medical Check-up Program of LWUA officials and employees have been implemented since 1977 up to the present. Hence, they contended that any action to discontinue such benefit would violate the principle of non-diminution of pay and benefits. They cited several Supreme Court decisions which ruled that any benefit and supplement being enjoyed by employees cannot be reduced, diminished, discontinued or eliminated by the employer. Also, in several cases decided by Supreme Court, the right of employees to benefits which were voluntarily given by the employer and which ripened into company practice has been recognized.

Even Section 5 of Executive Order No. 286 (Reorganizing MWSS and LWUA pursuant to the National Water Crisis Act of 1995) dated December 6, 1995 and Section 7 of RA No. 8041 recognized the principle of non-diminution of pay and benefits when both assured the continuous receipt by LWUA officials and employees of their present salaries and benefits.

They also explained that LWUA received only on February 2010 the approval of the DBM of its COB for CY 2009, long after the actual disbursements were made.

It was noted that LWUA cited several decided cases that involved private companies and not government owned or controlled corporations.

Moreover, the finding pertains to the disallowance made by DBM and ruled that the expense has no legal basis.

It is therefore recommended that Management should seek the approval of DBM for the granting of Executive Check-Up to LWUA Officials and Board of Trustees. If no approval is obtained, discontinue the reimbursement of Executive Check-up.

6. Representation and Transportation Allowances totaling P1.190 million claimed by the Members of the LWUA Board of Trustees has no legal basis and not in accordance with Section 55 of PD No. 198.

The Corporate Operating Budget of LWUA for CY 2009 showed that the budget for RATA of LWUA Board of Trustees in the amount of P1,488,000.00 was not approved by DBM as it has no legal basis.

Despite such non-approval by DBM, members of the Board of Trustees of LWUA still claimed Representation and Transportation Allowances from January to December, 2009 in the total amount of P1,190,200.

Moreover, Section 55 of Presidential Decree No. 198 (Provincial Water Utilities Act of 1973) stipulates that as compensation, LWUA 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 in connection with the performance of their functions in such amounts as may be determined by the Board of Trustees.

Based on such provision of PD No. 198, LWUA Trustees are entitled only to per diems for each meeting they actually attended and for reimbursable expenses. RATA is not a reimbursable expense, instead a monthly commutable allowance for which members of the Board of Trustees are not entitled to. Thus, the claims for RATA of the LWUA Board of Trustees have no legal bases and not in accordance with the LWUA Charter.

We recommended that the granting of RATA for the Board of Trustees be discontinued

The incumbent LWUA Board of Trustee has agreed to discontinue with the granting of said RATA effective immediately.

However, LWUA management gave the information that let it be noted that except for the Chairman of the Board of Trustees, the members of the BOT have all been replaced by newly appointed Trustees.

7. Advances to Water Districts worth P2.3 million remain dormant for more than ten (10) years while P31.2 million was still outstanding despite completion of the project.

The Advances to Water District account as of December 31, 2009 amounted to P33,567,482.66 which includes release of funds to different Water Districts for earthquake rehabilitation, Pinatubo 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 eleven (11) to sixteen (16) years.

We also noted that the purpose of these outstanding advances had already been accomplished. 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 totaling P31,219,300.15 to eight (8) water districts for the rehabilitation of projects damaged by typhoon Reming remain unliquidated since their release in April 2007 and December 28, 2008.

The non-liquidation of outstanding cash advances would adversely affect the Other Current Assets account and the respective Expense account, and ultimately the Retained Earnings account.

The following remedial measures are recommended:

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

Management has taken note of the audit observation and recommendations.

Regarding Advances made to 15 Water Districts that remained dormant for 11 to 16 years –

Necessary adjustment will be made as soon as the required liquidation documents are made available to support appropriate entries in the corporation's books.

As to advances made for the rehabilitation of 8 projects damaged by typhoon Reming –

Of the total cash advances totaling P31.219 million, about 96% or P29.9 million were liquidated after the Balance Sheet date, leaving a balance of P1.33 million.

FINANCIAL AUDIT

8. The reported balance of Cash in Bank – Local Currency, Current Deposit and Savings Deposit accounts were understated by P205 million mainly due to outstanding checks as of year end

Confirmations from the depository banks of LWUA showed that the total balance of the account Cash in Bank-Local Currency per LWUA books as of December 31, 2009 was understated by P205,035,138.58, summarized as follows:

Total cash deposits per LWUA books	P997,087,520.04
Total cash deposits per LWUA banks	792,052,381.46
Difference	P205,035,138.58

The understatement was due mainly to the outstanding checks or checks that were already disbursed per LWUA books but not yet debited to the LWUA accounts by the bank as of December 31, 2009.

Moreover, included in the cash balances confirmed by the Land Bank of the Philippines, Philippine National Bank, Veterans Bank and Express Savings Bank are eight (8) bank accounts totaling P832,881.78 which were not included in LWUA schedule of Cash - Other Banks and Cash – Special Deposits Accounts. No monthly bank reconciliation statements were submitted for these bank accounts.

On the other hand, recorded Cash in bank of P70,921.00, were not confirmed by Land Bank and Philippine National Bank.

Consider the following summary of the results of bank confirmation of LWUA Cash in Banks – Local Currency:

	Per Book	Per Bank	Overstatement (Understatement)
Recorded in the books and confirmed by the Bank	P791,981,460.27	P 996,254,638.26	(P 204,273,177.99)
Not recorded in the Books but included in the bank Confirmation	-	832,881.78	(832,881.78)
Recorded in the books but not confirmed by the bank	70,921.19	-	70,921.19
	P 792,052,381.46	P 997,087,520.04	(P 205,035,138.58)

It is worthy to mention that the book balance of Cash in bank – Foreign Currency amounting to P 23,390,650.05 reconciled with the confirmed balances of the respective banks.

We recommended that management make the necessary reconciliation of the recorded Cash – Local Currency with the bank balances as of December 31, 2009 to properly account and report the correct cash in bank balances for local currency.

Management has taken note of the audit observations and recommendation. The understatement of P205.035 million is accounted for as follows:

<u>Particulars</u>	<u>Amount (in millions)</u>
a. Outstanding checks which were presented to the bank after the balance sheet date. Bank reconciliation statements as of the end of first quarter of 2010 showing the status of all outstanding checks reported as of December 31, 2009 were submitted for ready reference.	(204.273)
b. Non-LWUA bank accounts –the identified 7 bank accounts reported by LBP are not LWUA bank accounts and need not be recognized in the corporation’s books. Rather these are Contractor’s bank accounts for the LWUA projects.	(0.833)
c. Initial deposits from sources other than LWUA funds – It represent initial deposit required for the opening of the subject accounts that will be reverted to the Contractors” funds and need not be recognized in the corporation’s books.	(0.020)
d. Initial deposits required by LBP branches –. Balances represent the minimum deposits in bank accounts maintained at the LBP local branches exclusively for the servicing of the Water District’ loans remittances	0.054
e. Dormant Accounts – Necessary adjustments will be made upon receipt of documents to support appropriate entries in the corporation’s books	0.037
<u>Difference</u>	<u>(205.035)</u>

There is a still a need for management to ensure and show proofs that the seven (7) bank accounts confirmed by Land Bank of the Philippines as LWUA bank accounts are not really their bank accounts and actually owned by their contractors. If proven to be LWUA bank accounts, we recommend that this should be recorded in the LWUA books.

9. The Payroll Fund book balance of P1.6 million as of December 31, 2009 differs by P1.37 million against the records of the Disbursing Officer showing a cash balance of P258,069.84 only.

The Payroll Fund represents releases of funds to defray Salaries and Wages, Grocery Allowances, COLA, Cash Gift and Loyalty Awards of LWUA officers and employees until July 2009. Effective July 2009, the ATM system was implemented in paying such salaries and benefits of LWUA employees. The said fund and account is now used to defray and record the cash gift of birthday celebrants; and salaries, meal allowances and other subsidies of cadet engineers.

Verification of the accounting records pertaining to the Payroll Fund (Account No. 8-70-500) showed that as of December 31, 2009, the said fund has an outstanding book balance of P1,629,045.48. Analysis of the records of the concerned Disbursement Officer, however, showed that the outstanding balance of the Payroll Fund as of December 31, 2009 should only be P258,069.84.

The difference of P1,370,975.64, represent cash advances for Salaries and Allowances granted before CY 2005 that still remains outstanding in the accounting books. Review of records of the Disbursing Officer shows that the cash advance of P1.37 million was no longer included in her accountabilities. Interview with the Disbursing Officer disclosed that she already liquidated such cash advances but such liquidation was not recorded in the books of LWUA.

We also noted that the liquidation for salaries of cadet engineers for September 16 – 18, 2009 amounting to P11,653.40 was taken up twice per JV No. 09-58-2009 and JV No. 10-79-2009.

We recommended the following:

- a) Reconcile accounting records with the records of the Disbursing Officer;
- b) Facilitate the immediate processing of liquidation vouchers submitted by the Accountable Officer and record the adjustments to reflect and correct the amount of the Payroll Fund and update her accountability;
- c) Ensure the proper liquidation of all payroll fund releases are in accordance with the rules and regulations prescribed under COA Circular No. 97-002; and
- d) Prepare the necessary adjustment for liquidation that was taken-up twice in the book.

10. 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 2009, 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 amount of the accounts. Management had taken note of the audit findings and recommendations and Journal Vouchers were prepared in March 2010 taking up the adjustments as recommended. Consider the following:

Account	Balance 12-31-09	JV No.	Adjustments	Adjusted Balance
Office Materials and Supplies Inventory	1,641,164.36	01-66-2010	CR 1,123,307.05	
		03-01-2010	DR 33,877.59	
		03-02-2010	DR 8,906.75	
		03-03-2010	DR 346,759.20	907,403.85
Engineering Service Expense	-	03-52-2010	DR 1,883,492.07	1,883,492.07
Deferred Engineering Study	10,243,815.81	03-52-2010	CR 1,883,492.07	8,360,323.74
Liability for Special Funds- Bidders Fund	966,050.20	03-52-2010	DR 20,000.00	946,050.20
Prior years Adjustments	1,426,007,339.26	01-66-2010	DR 1,123,307.05	
		03-01-2010	CR 33,877.59	
		03-02-2010	CR 8,906.75	
		03-52-2010	DR 162,000 CR 528,759.20	1,426,721,102.77
Miscellaneous Receivables- Miscellaneous Claims (GOP)	1,192,226,070.77	04-01-2010	DR 82,650,211.26	1,274,876,282.03
Liability for Special Funds - DOH	561,619,878.03	04-01-2010	CR 50,210,213.26	611,830,091.29

DPWH	196,025,435.57	04-01-2010	CR 30,039,998	226,065,433.57
Various Project Investment Program	378,110.58	04-01-2010	CR 2,400,000.00	2,778,110.58

11. Status of Audit Suspensions, Disallowances and Charges

COA records disclosed that for CY 2009, no Notice of Disallowance / Suspensions / Charges was issued after the effectivity of the Rules and Regulations on Settlement of Accounts (RRSA) in October 2009. Thus, per Statement of Audit Suspensions, Disallowances and Charges (SASDC) for the period ending December 31, 2009, LWUA has no unsettled balances of suspensions, disallowances and charges as of December 31, 2009.

From March 18, 2004 to July 22, 2009, prior to the effectivity of the RRSA, COA records disclosed that several transactions totaling to ₱81,925,063 have been disallowed in audit. Various "Motions for Reconsideration" were subsequently filed before the appropriate offices of the COA Central Office in accordance with the Rules of Procedure.

GENDER AND DEVELOPMENT

12. **The LWUA GAD Focal Point was able to undertake GAD activities required for the stages of gender mainstreaming although its allocated fund does not represent the fund requirement equivalent to at least five (5%) of the total budget for CY 2009.**

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 (5%) of their total budget appropriations.

Local Water Utilities Administration (LWUA) is one of the government agencies tasked to formulate a GAD plan. The DBM-approved Corporate Operating Budget (COB) for Personnel Services and Maintenance and Operating Expenses totaled **₱481,766,000.00**, thus it is mandated that at least **₱24.1** million was allocated for GAD programs.

Review however of LWUA's Corporate Operating Budget for Calendar Year 2009 as approved by the Department of Budget and Management (DBM) disclosed that the

budget for GAD Administered Programs included under Outside Training and Seminars Account was only **P815,000.00**.

The amount does not represent the fund requirement equivalent to at least five (5%) of the total appropriations of the agency as authorized under the annual General Appropriations Act, however, LWUA was able to undertake GAD activities required for the stages of gender mainstreaming.

LWUA GAD Focal Point (GFP), the steering wheel and pilot of all GAD efforts in LWUA was able to enhance awareness on GAD issues and concerns. It has opened the door to enhance understanding and appreciation of gender concepts/principles among LWUA's policy makers/development planners and program implementers.

The setting-up of LWUA GENDER AND DEVELOPMENT CENTER and its inauguration on March 27, 2009, symbolizes the institutionalization of GAD in LWUA as well as in the Water Districts.

With GAD Center, LWUA GAD Focal Point can now perform its tasks more efficiently and comfortably since it has the basic amenities of any modern-day work station. The Center served 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.

Among the most significant tasks done by GFPs include the acquisition of GAD literature from the National Commission on the Role of Filipino Women (NCRFW) which is the lead government agency in the promotion of Gender and Development in the country as mandated by Republic Act 7192, otherwise known as the "Women in Development and Nation-Building Act". It is now the Philippine Commission on Women, by virtue of Republic Act 9710: the Magna Carta for Women.

The GAD literature provided the GFPs a glimpse of basic GAD concepts and principles such as equity and equal opportunities for both women and men, the definition of strategic and practical needs of men and women as applied in the workplace, the GAD budget, and the process of mainstreaming GAD in key functional units of LWUA.

However, the GFPs also encountered problems and some difficulties. One of the most basic and most common difficulties faced by GFPs is the "scarcity" of personnel willing to devote serious efforts and time outside of their regular jobs since GAD-related tasks are extra-curricular work. And the limited number of GFPs would have to focus on several GAD issues and concerns that includes:

- identifying activities/areas that have to be implemented/be addressed towards GAD mainstreaming in the Agency;
- continuing the formulation of mechanisms/guidelines for the integration of GAD in key corporate programs/functions of LWUA;

- developing and reviewing a set of evaluative criteria to determine gender-sensitivity and adherence to Gender and Development principles, policies, programs, functions and projects;
- monitoring and evaluating GAD Performance indicators that are consistent with the Organization Performance Indicator Framework of the DBM.

It is recommended that LWUA should continue implementing GAD activities despite allocation of minimal fund requirements. Moreover, GAD Focal Point should initiate the increase in the budget for GAD plan subject to availability of cash.

**Local Water Utilities Administration
STATUS OF IMPLEMENTATION OF THE
PREVIOUS YEAR'S AUDIT RECOMMENDATION**

Item No.	GL Account Name	Audit Findings	Recommendations	Complied (/) Not complied (x)
FINANCIAL AUDIT				
1	Cash in Bank	A net variance of P6.652 million was noted between the reported balances of Cash in Bank accounts (Local and Foreign currency)	Reconcile the book balances of the Cash –Local and Foreign Currency accounts with the 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.	(x) Bank reconciliation was updated for the 2008 Financial Statements but not yet updated for the 2009 Financial Statements. See Finding No. 8 for the same audit observations
2	Accounts Receivable	Reported collection efficiency ratio of Loans Receivable from Water Districts reached as high as 95%. However, 55% of collections represent refinanced loans to Water Districts and only 40% represent actual collections. However, actual collection efficiency reached only 78% as against the reported collection efficiency of 95%.	Continue exerting effort in the collection of loans receivable especially from those Water Districts with arrearages and from non-performing loans. Institute measures to demand payments of all long- overdue accounts.	(/) (/)
3.	Allowance for Bad Debts	Non-performing loans of P925,475,435 were not included in the amount of total collectibles. There were non-performing accounts where water	Provide adequate allowance for bad debts for non-performing accounts to present the realizable value of loans receivable.	(/)

Item No.	GL Account Name	Audit Findings	Recommendations	Complied (/) Not complied (x)
		districts were no longer operating and whose collections were no longer possible.		
4	Advances to Water Districts (Other Current Assets)	Advances to Water Districts worth P2.3 million remain dormant for more than five (5) years.	Ensure proper liquidation of all advances	(x) See Finding No. 7 for the same audit observation
5	Receivables - Miscellaneous Multi-purpose Loan Housing Assistance Loan Others (Long-term Receivables)	P10.15 million worth of Long term Receivables have remained outstanding for 10 to 27 years ; the possibility of collecting such is already remote	Require the concerned employees to liquidate their long outstanding cash advances. Institute legal action if necessary.	(/) (x) No legal action was instituted. They are still requiring employees to settle their accounts
			Withhold salaries and other fringe benefits of concerned Special Disbursing Officers.	(/)
			Institute appropriate action for the approval of the writing off of accounts receivable that could no longer be collected	(x) Still under consideration by Management
6	Loans Receivable - Water Districts (Long-term Receivables)	Difference of P539.93 million between the general ledger balance and the subsidiary ledger balances per area	Periodically reconcile the General Ledger balance of the Long-Term Loans Receivable with the totals of the subsidiary	(/) partial

Item No.	GL Account Name	Audit Findings	Recommendations	Complied (/) Not complied (x)
			ledger balances The result of the reconciliation process should be submitted to the Office of the Auditor for validation .	
7	Due to BIR (Payables to Government Agencies)	Due to BIR account includes Withholding Tax Payable worth P11.2M that remains outstanding for more than a year	Remit immediately the outstanding tax withheld amounting to P5.61M Account for the P5.59M withholding taxes of prior years (1997)	(/)
8	Loans Payable – Foreign (Long term Liabilities)	The balance of Loans Payable – Foreign per LWUA books differed by P666.54 M as against results of confirmation replies by various creditor banks	Reconcile the balance of the Loans Payable Foreign per books against the balance/s confirmed by the various foreign lending banks 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	(/) partial (/) partial
9	Repairs and Maintenance	Erroneous recording of the purchase of one (1) unit Chevrolet Captiva as expense – Repairs and Maintenance – Transportation expense resulting to understatement of Property and Equipment account		(/)
COMPLIANCE AUDIT				
1	Corporate	Actual expenditures	Limit the incurrence of	(X)

Item No.	GL Account Name	Audit Findings	Recommendations	Complied (/) Not complied (x)
	Operating Budget (COB)	<p>exceeded the Board – approved COB by 9% or by a total of P59,194,268.</p> <p>COB of LWUA was not yet approved by DBM due to non-submission of required documents.</p>	<p>expenditures within the budget</p> <p>Approved by the Board of Trustees (BOT). In case of expenses, a Supplemental Budget should be prepared and approved by the BOT.</p>	<p>See finding no. 3 for the same audit observations</p>
2	Extraordinary and Miscellaneous expenses (EME)	<p>Actual EME for CY 2008 in the total amount of P20.4M were not supported with receipts in violation of Sec 3 of COA Circular No. 2006-001 dated January 3, 2006;</p> <p>Excessive disbursements for EME</p> <p>Erroneous charging of accounts; Expenses reimbursed under the Miscellaneous expenses account should have been properly categorized under the regular budget allocation</p>	<p>Comply strictly with the provisions of COA Circular No. 2006-001, adopting a non-commutable or reimbursable basis for the payment of EME and support the claims with receipts and / or other documents evidencing disbursements</p> <p>Make the necessary adjustments to reclassify the proper charging of the Miscellaneous Expense account.</p>	<p>X</p> <p>See finding no. 4 for the same audit observation</p>
3	Transportation allowance	<p>Some officials were issued with government motor vehicles and were</p> <p>provided with fuel expenses still claimed transportation Allowances contrary to COA Circular No. 99-002 dated June 15, 1999.</p>	<p>Stop the granting of transportation allowances to officials and employees with</p> <p>issued government motor vehicles and whose offices incurred gasoline and diesel fuel expenses</p>	<p>(/)</p>

Item No.	GL Account Name	Audit Findings	Recommendations	Complied (/) Not complied (x)
		Deductions from RATA of some officials who availed the use of government vehicles amounted to only P600 or P400 per month instead of 50% of their RATA	Deduct transportation allowance in the amount equivalent to 50% of the monthly RATA instead of the monthly P600 or P400	(x) See finding no. 6 for reiteration
4	Cash advances for traveling Expenses (Other Current Assets)	Cash Advances for traveling expenses representing 53% of the total cash advances in the total amount of P2,447,968 remained unliquidated as of year end, contrary to the provisions of COA Circular No. 97-002.	Ensure proper liquidation of all cash advances Exert effort to require the concerned employees to liquidate their long outstanding cash advances. Facilitate the immediate processing of liquidation vouchers submitted by the concerned accountable officers in order to update their accountability.	(/) (/) (/)
5.	Utility expenses	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%. Such memorandum explicitly requires that fuel expenses in excess of the authorized monthly allocation shall be charged against the respective miscellaneous	Limit transport fuel consumption up to the authorized monthly allocation only and without charging the excess fuel expenses against miscellaneous expenses or other expense accounts.	(/)

Item No.	GL Account Name	Audit Findings	Recommendations	Complied (/) Not complied (x)
		expenses of each service.”		
6	Cash Advance / Traveling expenses	Liquidation of cash advances for travels completed were not supported by Certificate of Appearance “ signed by authorized officials of the agency that was visited by the LWUA employee in violation of Section 3.1.2.2 e) of COA Circular No. 96-004 dated April 19, 1996	Support liquidation vouchers with all pertinent documents especially with Certificates of Appearance duly signed by authorized officials of the agency which was visited by the LWUA employee.	(/)
7	Various accounts	Thirty one (31) disbursement vouchers and paid checks totaling P6.2 million covering the period April 2002 to December 2008 have not yet been forwarded to COA contrary to Section 43(4) of PD 1445 and Section n 427 of GAAM, Volume 2	Forward immediately all paid disbursement vouchers and its supporting documents to COA for custody and verification.	(/) partially