



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

### **Report on the financial statements**

We have audited the accompanying financial statements of the **Local Water Utilities Administration**, which comprise the statement of financial position as at December 31, 2010, and the statement of income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *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 state accounting principles in the Philippines and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. 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 misstatement.

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 misstatement 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 the 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 Adverse Opinion*

Financial assistance released to Water Districts in the amount of P2.347 billion as of December 31, 2010, or 52% of the carrying amount of the total receivables, were recognized as claims from the National Government despite the absence of legal basis or document to support the claim.

The cash and cash equivalents in the amount of P639.5 million is not sufficient to cover all recognized trust liabilities of LWUA as of the same date of P1.973 billion. More specifically, the Water District Portfolio Fund of P 1.9 million is not enough to pay the maturity/termination value of the deposits made by the Water Districts of P154.3 million.

The LWUA investments of P480 million and deposit of P300 million with the Express Savings Bank Inc. (ESBI) were still not terminated/recovered despite BSP Monetary Board Resolution Nos. 605 and 1301 dated April 29, 2010 and September 16, 2010, respectively, which disallowed the transfer of 60% share of the total voting stock of ESBI to LWUA and directed ESBI to return all government deposits from various government agencies.

Stale/cancelled and unreleased checks in the amount of P103 million at December 31, 2010 were not adjusted back to cash in bank resulting in the understatement of both the cash in bank and liability for special funds accounts and overstatement of loans receivable to Water Districts.

The balance per books of certain foreign loans payable in the total amount of P3.419 billion as of December 31, 2010 differ from the confirmed amounts in the total amount of P2.837 billion, or a net variance of P 582 million.

#### *Adverse Opinion*

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements do not present fairly the financial position of Local Water Utilities Administration as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted state accounting principles in the Philippines.

#### *Emphasis of Matter*

We draw attention to Note 31 of the financial statements, which describes the uncertainties related to the lawsuits or claims by third parties against LWUA which are either pending in courts or under negotiations. No provision for contingency is recognized in the financial statements since the outcome of said lawsuits or claims are not presently determinable.

**Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 32 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. Because of the significance of the matters described in the Basis for Adverse Opinion paragraphs, it is inappropriate to and we do not express an opinion on the information referred to above.

**COMMISSION ON AUDIT**

**PRISCILLA DG. CRUZ**  
Supervising Auditor

May 31, 2011

**LOCAL WATER UTILITIES ADMINISTRATION**  
**STATEMENT OF FINANCIAL POSITION**

December 31, 2010  
(in Philippine Peso)

	Notes	2010	2009
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	2, 3	639,508,077	920,911,227
Receivables, net	2, 4	4,474,961,666	3,166,010,825
Supplies inventory	5	4,453,877	3,015,912
Other current assets	2, 6	106,926,257	100,430,432
Total Current Assets		5,225,849,877	4,190,368,396
<b>Non-Current Assets</b>			
Long-term receivables, net	7	11,505,245,710	12,092,371,447
Long-term investments	8	852,785,349	843,731,598
Property and equipment, net	9	227,617,693	181,498,370
Other non-current assets	10	358,266,800	253,392,772
Total Non-Current Assets		12,943,915,552	13,370,994,187
<b>TOTAL ASSETS</b>		<b>18,169,765,429</b>	<b>17,561,362,583</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable	11	1,203,990,957	637,270,243
Payables to government agencies	12	223,459,366	85,279,774
Other current liabilities	2,13	2,254,709,000	2,029,604,154
Total Current Liabilities		3,682,159,323	2,752,154,171
<b>Non-Current Liabilities</b>			
Loans Payable, Government of the Phils	2, 14	2,185,731,859	2,372,837,063
Loans Payable - Foreign, net of current portion	2, 15	5,139,117,319	5,452,169,682
Loans Payable, Local	2, 16	424,973,333	516,626,666
Deferred Credits	17	784,229,828	715,655,452
Total Non-Current Liabilities		8,534,052,339	9,057,288,863
<b>TOTAL LIABILITIES</b>		<b>12,216,211,662</b>	<b>11,809,443,034</b>
<b>EQUITY</b>		<b>5,953,553,767</b>	<b>5,751,919,549</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>18,169,765,429</b>	<b>17,561,362,583</b>

See accompanying Notes to Financial Statements.

**LOCAL WATER UTILITIES ADMINISTRATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**As of December 31, 2010**  
**(With comparative figures for 2009)**

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**1. AGENCY INFORMATION**

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

Some of the major functions of LWUA include the following:

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Preparation**

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

**Functional and Presentation Currencies**

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

**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.

#### **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:

	<b>2010</b>	2009
Deferred Tax Assets	<b>542,119,074</b>	485,544,555
Deferred Tax Liability	<b>261,681,142</b>	261,681,142
Net Deferred Tax Assets	<b>280,437,932</b>	223,863,413

### **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.

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**3. CASH AND CASH EQUIVALENTS**

This account consists of:

	2010	2009
Cash on hand	38,793,304	62,829,558
Cash in bank – local currency	538,736,916	792,052,381
Cash in bank – foreign currency	24,074,888	23,390,650
Short- term investments	37,902,969	42,638,638
	<b>639,508,077</b>	<b>920,911,227</b>

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**4. RECEIVABLES**

This account consists of:

	2010	2009
<b>Trade Receivables</b>		
Loans receivables from GOCCs	912,016,761	815,280,716
Interest receivables	1,146,696,009	935,240,281
Receivables from Well Drilling Projects	7,600,254	7,201,883
Receivables from Engineering Studies	518,400	1,394,829
Total	<b>2,066,831,424</b>	<b>1,759,117,709</b>
Less allowance for doubtful accounts	<b>802,745,112</b>	<b>689,050,376</b>
Trade Receivables, net	<b>1,264,086,312</b>	<b>1,070,067,333</b>

	2010	2009
<b>Non-trade Receivables</b>		
Due from Officers and employees	4,815,642	10,179,786
Receivables from Government		
Agencies	841,749,648	898,065,699
Miscellaneous	2,369,351,536	1,192,739,479
<b>Total</b>	<b>3,215,916,826</b>	<b>2,100,984,964</b>
Less : allowance for doubtful accounts	5,041,472	5,041,472
<b>Non-trade Receivables, net</b>	<b>3,210,875,354</b>	<b>2,095,943,492</b>
	<b>4,474,961,666</b>	<b>3,166,010,825</b>

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

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

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

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

*Due from officers and employees* represents receivables from medical loans granted to LWUA officials and employees as well as amounts of cash advances for traveling expenses.

*Receivables from Government Agencies* represents those due from National Government Agencies (NGAs) in the amount of P3,524,530, those interest bearing loans due from the Local Government Units in the amount of P 4,712,581, and those from Water Districts billed on open account in the amount of P833,512,537. *Receivable 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* represents the amounts released for the implementation of Water Supply Projects under the former President's Priority Program on Waterless Municipalities /Barangays and which were chargeable against the Presidential Social Fund (PSF).

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## 5. SUPPLIES INVENTORY

This account consists of:

	<b>2010</b>	2009
Office supplies inventory	<b>1,311,284</b>	2,075,330
Medical, dental and laboratory supplies	<b>408,223</b>	540,722
Other supplies inventory	<b>2,734,370</b>	399,860
	<b>4,453,877</b>	3,015,912

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

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* account consists of water supply materials which are still not issued and are being kept in stock for future use of water districts.

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## 6. OTHER CURRENT ASSETS

This account consists of:

	<b>2010</b>	2009
Advances to contractors	<b>52,231,577</b>	38,888,309
Advances to consultant	<b>25,971,098</b>	25,971,098
Advances to water districts	<b>26,567,483</b>	33,567,483
Prepaid expenses	<b>491,490</b>	549,306
Guarantee Deposits	<b>1,664,609</b>	1,454,236
	<b>106,926,257</b>	100,430,432

*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* account includes releases of funds to different water districts for earthquake rehabilitation, as well as for Water Districts struck by Typhoon Reming, and advances 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 purposes 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* refer to prepayments made to various firms / individuals such as advances to Manila Electric Company, PLDT for telephone deposits, deposits to C. Lotti for the opening of a special account for feasibility study, etc.

## 7. LONG-TERM RECEIVABLES

This account consists of:

	2010	2009
Loans receivable from water districts (WD)	<b>12,224,778,204</b>	12,788,140,895
Restructured receivables – WD	<b>533,258,488</b>	503,285,676
Employees multipurpose loan receivables	<b>223,310,794</b>	201,761,398
Unbilled loans and accounts receivables-WD	<b>96,050,064</b>	96,050,064
Loans receivables- RWSA	<b>29,774,898</b>	30,173,156
	<b>13,107,172,448</b>	13,619,411,189
Less: Allowance for bad debts	<b>1,601,926,738</b>	1,527,039,742
	<b>11,505,245,710</b>	12,092,371,447

*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.

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## 8. LONG -TERM INVESTMENTS

The account includes :

	2010	2009
Advances to Express Savings Bank Inc	<b>400,000,000</b>	400,000,000
Investments in Bonds	<b>341,126,720</b>	363,324,018
Investments in Subsidiaries	<b>80,003,070</b>	80,003,070
Advances to LWUA Consult, Inc.	<b>31,655,559</b>	404,510
	<b>852,785,349</b>	843,731,598

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.....P341,126,720

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 Subsidiaries .....P80,003,070

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. ....P31,655,559

The LWUA Consult, Inc. (LCI) was created through LWUA Board Resolution Nos. 152 and 360 both series of 2009 adopted last June 30 and August 25, 2009, respectively. As a wholly-owned subsidiary of the Local Water Utilities Administration, it aims to specifically augment / complement LWUA in the latter's primary task of promoting and developing provincial water supply systems by providing specialized technical assistance to local water utilities and other water supply developers/providers.

LWUA Board Resolution No. 609 authorized the deposit with Express Savings Bank, Inc., Cabuyao Branch the amount of P31,250,000, as paid up capital of LCI. Its Certificate of Incorporation was duly registered last December 7, 2009 with the Securities and Exchange Commission under Registration No. CS 200918943. As a duly incorporated entity, the LWUA Consult, Inc. is distinct from LWUA with its own corporate structure but dependent on LWUA for policy direction.

This P405,559 represents the 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.

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**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
<b>CY 2010</b>						
At January 1	1,664,620	147,815,713	129,591,064	109,563,568	68,214,280	456,849,245
Additions		46,969,495	4,414,812	18,939,265	14,122,101	81,445,673
Disposals		(1,093,636)	(1,053,018)	(218,419)	(9,271,948)	(11,637,021)
At Dec. 31	1,664,620	190,691,572	132,952,858	128,284,414	73,064,433	526,657,897
<b>CY 2010 Accumulated Depreciation</b>						
At January 1		62,637,131	69,183,906	97,997,627	45,532,211	275,350,875
Depreciation		4,678,909	14,905,200	830,567	5,206,640	25,621,316
Disposals		(984,272)	(947,715)			(193,1987)

	Land Improvement	Building & Improvement	Furniture & Office Equipment	Engineering & Laboratory Equipment	Other Equipment	Total
<b>At December 31 , 2010</b>		<b>66,331,768</b>	<b>83,141,391</b>	<b>98,828,194</b>	<b>50,738,851</b>	<b>299,040,204</b>
<b>Net Book Value At December 31</b>	<b>1,664,620</b>	<b>124,359,804</b>	<b>4,981,1467</b>	<b>29,456,220</b>	<b>22,325,582</b>	<b>227,617,693</b>
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)
<b>At December 31</b>	<b>1,664,620</b>	<b>147,815,713</b>	<b>129,591,064</b>	<b>109,563,568</b>	<b>68,214,280</b>	<b>456,849,245</b>
Accumulated Depreciation :						
CY 2009						
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)
<b>At December 31, 2009</b>	<b>-</b>	<b>62,637,132</b>	<b>69,183,905</b>	<b>97,997,627</b>	<b>45,532,211</b>	<b>275,350,875</b>
<b>Net Book Value At December 31</b>	<b>1,664,620</b>	<b>85,178,581</b>	<b>60,407,159</b>	<b>11,565,941</b>	<b>22,682,069</b>	<b>181,498,370</b>

## 10. OTHER NON-CURRENT ASSETS

This account consists of:

	2010	2009
Deferred tax assets	<b>280,437,932</b>	223,863,413
Deferred engineering study cost	<b>60,012,520</b>	10,243,816
Restricted funds	<b>1,974,198</b>	956,313
Deferred well drilling cost	<b>1,540,632</b>	4,027,712
Other deferred charges	<b>14,301,518</b>	14,301,518
	<b>358,266,800</b>	253,392,772

*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:

	2010	2009
Deferred Tax Asset	<b>542,119,074</b>	485,544,555
Deferred Tax Liability	<b>261,681,142</b>	261,681,142
<b>Deferred Tax Assets. (net)</b>	<b>280,437,932</b>	223,863,413

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:
  - (i) the same taxable entity; or
  - (ii) 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.

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## 11. ACCOUNTS PAYABLE

This account consists of:

	<b>2010</b>	2009
Notes and acceptances payable	<b>1,000,000,000</b>	500,000,000
Interest payable	<b>140,223,070</b>	81,797,068
Payables – Unliquidated Obligations	<b>58,258,692</b>	50,051,556
Payable to officers and employees	<b>5,509,195</b>	5,421,619
	<b>1,203,990,957</b>	637,270,243

*Notes and acceptances payable* pertains to the outstanding balance of short-term loans with the Philippine Veterans Bank. Additional P500,000,000 was received in 2010 from Philippine Veterans Bank thus bringing a total of P1,000,000,000

outstanding as of date. The loan is used exclusively to bridge finance LWUA's existing and maturing loans. This carries an interest rate of 6.8421% per annum. All loans were secured by the assignment of LWUA's Trade / Business receivables.

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## 12. PAYABLE TO GOVERNMENT AGENCIES

This account consists of the following :

	2010	2008
Due to Government Owned and Controlled Corporations (GOCCs)	168,796,130	81,778,935
Due to Bureau of Internal Revenue (BIR)	54,663,236	3,500,839
	<b>223,459,366</b>	<b>85,279,774</b>

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). As of Balance Sheet date, Income Tax Payable amounted to P44,470,310 , and withholding tax payable amounted to P10,192,926.

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## 13. OTHER CURRENT LIABILITIES

This account consists of:

	2010	2009
Loans payable, current – foreign	274,526,857	302,608,052
Loans Payable , current -GOP	138,539,256	135,283,775
Loans payable, current – domestic	91,653,333	91,653,333
Guaranty deposits payable	60,933,985	55,795,215
Other payables	1,689,055,569	1,444,263,779
	<b>2,254,709,000</b>	<b>2,029,604,154</b>

*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* include the following :

	<b>2010</b>	2009
Liabilities for special fund	<b>1,512,588,602</b>	1,249,442,954
Depository liabilities	<b>154,358,295</b>	155,044,381
Miscellaneous	<b>22,108,672</b>	39,776,444
	<b>1,689,055,569</b>	1,444,263,779

Liabilities for special fund are the amounts received in trust by the Corporation and represent government subsidy support fund for the development of various water supply system projects thru the Department of Health (DOH) and the Department of Public Works and Highways (DPWH). Depository liabilities are amounts received from various water districts on a voluntary basis for safekeeping and investments in line with the LWUA's mandate to act as a depository of WDs reserve funds.

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

This account consists of:

	<b>2010</b>	2009
USAID 033 – US\$15M At 2% per annum from 1975 to 1985, 3%, thereafter, payable in 30 annual installments of \$286,330.88 starting July 17, 1985 and increasing thereafter, up to July 17, 2015.	<b>204,164,174</b>	231,353,597
USAID 042 – US\$ 20M At 2% per annum from 1977 to 1987, 3% thereafter payable in 30 annual installments of \$305,410.85 starting April 13, 1987 and increasing thereafter, up to April 13, 2017	<b>275,538,350</b>	302,306,638

	2010	2009
ADB 1056-PHI – US\$14.06M At 10% per annum payable in 25 annual installments of US\$247,600 starting February 15, 2001, increasing thereafter up to August 15, 2025.	<b>612,753,060</b>	631,847,841
ADB 1057-PHI – US\$2.7M At 10% per annum payable in 20 annual installments of \$101,800 starting February 15, 1995 increasing thereafter up to August 15, 2014.	<b>64,449,019</b>	74,832,117
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	<b>13,114,268</b>	13,118,922
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.	<b>38,855,382</b>	46,234,787
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.	<b>94,549,880</b>	103,334,836
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.	<b>26,437,695</b>	45,941,669
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	<b>911,551,329</b>	970,742,519
French Protocol – FF24M At 3% Treasury Loan per annum payable in 30 annual installments of FF1,313,933.60 starting December 31, 1990 to December 31, 2020	<b>82,857,958</b>	88,407,912

	2010	2009
	<b>2,324,271,115</b>	2,508,120,838
Less : Current Portion	<b>138,539,256</b>	135,283,775
<b>Loans Payable – GOP</b>	<b>2,185,731,859</b>	2,372,837,063

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:

	2010	2009
<b>ADB 1269-PHI – US\$21.1M</b>		
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.	<b>754,549,497</b>	800,818,653
<b>ADB 1472-PHI – US\$45M</b>		
At 6.79% per annum payable in 20 annual installments of \$848,500 starting March 1, 2002, increasing, up to September 1, 2021.	<b>1,028,261,027</b>	1,070,480,361
<b>OEFC PH-P154 – Y6.131B</b>		
At 2.5%, Principal (I) and 2.1%, Principal (II) per annum payable in 20 annual installments of Y149,600,000 on August 20, 2005 and Y299,070,000 from February 20, 2006 through August 20, 2025.	<b>814,345,797</b>	862,606,880
<b>OEFC PH-P181 – Y7.228B</b>		
At 2.5%, Principal (I) and 2.1%, Principal (II) per annum payable in 20.5 annual installments of Y176,320,000 on March 20, 2007 and Y352,584,000 through March 20, 2027	<b>1,796,773,137</b>	1,900,980,910

	2010	2009
Australian Aid – US\$14.8M At 2.25% per annum payable in 9.5 annual installments of \$740,000 starting July 15, 2001 to January 15,2011.	<b>73,981,068</b>	146,018,986
KFW PTWSP I & II – Euro 14.700M German Financial Cooperation with the Philippines aimed to upgrade the WSS of Water Districts	<b>945,733,650</b>	973,871,944
Total Loans Payable Foreign	<b>5,413,644,176</b>	5,754,777,734
Less : Current Portion	<b>274,526,857</b>	302,608,052
	<b>5,139,117,319</b>	5,452,169,682

*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 showing a balance of P424,973,333 in 2010 and P516,626,666 in 2009 are secured as follows:

- 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:

### **1<sup>st</sup> 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. This was fully repaid in 2009.

### **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.

Principal of the loan is to be amortized based on a 15- year term payable in twenty

(20) equal quarterly amortizations to commence at the end of the eight (8<sup>th</sup>) quarter from initial drawdown date.

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		33,333,334	441,666,666
2008		33,333,333	408,333,333
2009		33,333,333	375,000,000
2010		33,333,333	341,666,667
2011		33,333,334***	308,333,332

\*\*\* current portion for 2010 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

\* current portion for 2009 loans

\*\* current portion for 2010 loans

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

	<b>Outstanding</b>	<b>Balance</b>
	<b>2010</b>	<b>2009</b>
1 <sup>st</sup> Tranche		
2 <sup>nd</sup> Tranche	<b>341,666,667</b>	375,000,000
3 <sup>rd</sup> Tranche	<b>174,960,000</b>	233,280,000
<b>Total Loans Payable</b>	<b>516,626,667</b>	608,280,000
Less: Current Portion		
2 <sup>nd</sup> tranche	<b>33,333,334</b>	33,333,334
3 <sup>rd</sup> tranche	<b>58,320,000</b>	58,320,000
	<b>91,653,334</b>	91,653,334
<b>Loans Payable Local, net of current portion</b>	<b>424,973,333</b>	516,626,666

## 17. DEFERRED CREDITS

This account consists of:

	<b>2010</b>	<b>2009</b>
Interest earned but not collected	<b>593,170,293</b>	526,935,631
Unearned income from well drilling contracts	<b>169,966,980</b>	169,966,980
Deferred income from housing loans	<b>20,383,853</b>	18,044,139
Unearned income from engineering study	<b>708,702</b>	708,702
	<b>784229828</b>	715,655,452

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.

## 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.

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## 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.

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## 21. PRIOR YEARS' ADJUSTMENTS

Details of this account are as follows:

	2010	2009
Economic Assistance 2009 /		
Personal Services 2008	<b>(34,143,000)</b>	1,023
Open account billings	<b>6,028,015</b>	
Materials and supplies	<b>(1,123,308)</b>	
Debt service charges	<b>4,750,452</b>	
Amortization / Penalty & Interest billings to WDs	<b>7,906,594</b>	(4,221,487)
Miscellaneous fines / fees	<b>437,772</b>	
Adjustments for taxes		(69,019,434)
Water districts' billing adjustments, net	<b>(2,747,216)</b>	
Adjustments for operating expenses		(21,022,189)
Liquidation of outstanding cash advances	<b>(3,777,992)</b>	
Other prior period expenses	<b>(2,812,643)</b>	
Foreign exchange losses		32,354,477
Engineering Services		11,812,873
Profound contributions LWUA share	<b>9,104,270</b>	
Advances by the Bureau of Treasury		(7,204,326)
	<b>(34,585,596)</b>	(57,299,063)

The LWUA's Board of Trustees authorized the grant of Economic Assistance for CY 2009 to LWUA's officials and employees through the adoption of Board Resolution No. 114 series of 2010 in March 9, 2010. This was pursuant to the 2007-2010 Collective Negotiation Agreement entered into by and between the LWUA Management and the LWUA Employees Association for Progress (LEAP). An amount equivalent to P57,000 were paid in 2010 to each of the LWUA regular officials and employees and to its contractual employees.

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**22. MISCELLANEOUS INCOME**

Details of this account are as follows:

	2010	2009
Miscellaneous fee for document reproduction, chemical testing, application and processing fees ,etc.	<b>3,851,570</b>	4,452,701
Pre-termination fees	-	11,350,207
	<b>3,851,570</b>	15,802,908

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**23. OPERATING EXPENSES**

This account consists of:

	2010	2009
<b>PERSONAL SERVICES</b>		
Other bonuses and allowances	<b>197,040,859</b>	346,227,979
Salaries and wages – Regular	<b>184,246,596</b>	157,133,908
Additional compensation (ADCOM)	<b>110,621,697</b>	98,762,048
Other personnel benefits	<b>37,829,331</b>	32,066,065
Life and retirement insurance contributions	<b>19,275,025</b>	18,658,422
Personnel Economic Relief Allowance (PERA)	<b>14,154,521</b>	14,502,874
RATA	<b>16,244,890</b>	14,993,852
Clothing / uniform allowance	<b>3,564,000</b>	3,561,160
PHILHEALTH contributions	<b>1,858,250</b>	1,791,225
Terminal leave benefits	<b>1,103,882</b>	696,872
PAG-IBIG contributions	<b>591,499</b>	679,928
ECC contributions	<b>649,861</b>	728,143
Honoraria	<b>242,538</b>	180,600
	<b>587,422,951</b>	689,983,076

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**MAINTENANCE AND OPERATING EXPENSES**

Bad debts	<b>188,581,732</b>	274,734,633
Professional Services	<b>24,777,550</b>	23,275,922
Confidential, intelligence, extraordinary and miscellaneous expenses	<b>30,977,117</b>	38,217,958
Depreciation	<b>30,169,233</b>	25,181,151
Travelling	<b>12,279,920</b>	22,514,688
Taxes, insurance premiums and other fees	<b>9,151,916</b>	12,108,495

	<b>2010</b>	2009
Service expenses	<b>18,697,632</b>	19,842,279
Utility expenses	<b>14,200,606</b>	12,029,521
Subsidies and donations	<b>7,056,500</b>	8,053,946
Repairs and maintenance	<b>8,075,419</b>	6,710,405
Advertising expenses	<b>3,709,249</b>	5,086,743
Supplies and materials expenses	<b>4,364,781</b>	4,632,278
Communication expenses	<b>3,915,081</b>	3,066,167
Training and scholarship expenses	<b>2,445,198</b>	3,019,654
Rent expenses	<b>639,896</b>	777,010
Subscription expenses	<b>233,463</b>	673,903
Other maintenance and operating expenses	<b>3,542,051</b>	2,252,960
	<b>362,817,344</b>	462,177,712
	<b>950,240,295</b>	1,152,160,788

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#### **24. FINANCIAL EXPENSES**

This account consists of:

	<b>2010</b>	2009
Interest Expense	<b>438,251,475</b>	484,880,579
Bank Charges	<b>9,635</b>	927,029
	<b>438,261,110</b>	485,807,608

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#### **25. INCOME TAX EXPENSE**

Components of income taxes are as follows:

	<b>2010</b>	2009
Current tax	<b>155,520,248</b>	106,730,540
Income tax benefit	<b>(56,574,519)</b>	(82,420,390)
Deferred tax	-	-
	<b>98,945,729</b>	24,310,150

Numerical reconciliation between tax expense and the product of accounting income multiplied by the tax rate of 30% in 2010 and 2009 are as follows:

	2010	2009
Accounting Income	<b>335,165,543</b>	93,609,176
Tax expense at 30%	<b>100,549,663</b>	28,082,753
Tax effect of non-deductible interest expense	<b>1,046,187</b>	2,911,840
Tax effect on non-taxable interest income	<b>(2,650,121)</b>	(6,684,443)
	<b>98,945,729</b>	24,310,150

Details of Current tax are as follows:

	2010	2009
Sales/ Revenue/ Receipts/ Fees	<b>1,689,462,841</b>	1,665,990,814
Less: Cost of Services	<b>456,909,579</b>	495,943,752
Gross Income from Operations	<b>1,232,553,262</b>	1,170,047,062
Non Operating , Taxable Other Income	<b>25,027,022</b>	40,044,297
Total Gross Income	<b>1,257,580,284</b>	1,210,091,359
Less: Deductions	<b>739,179,458</b>	854,322,893
Net Taxable Income	<b>518,400,826</b>	355,768,466
Tax Rate	<b>30%</b>	30%
Current Tax	<b>155,520,248</b>	106,730,540

The computed current tax does not include the deferred tax on Current Year 2010 "Bad Debts" expense.

Details of the computed Income Tax Benefit are as follows:

	2010	2009
Allowance for Bad Debts end	<b>2,404,671,850</b>	2,216,090,118
Less : Allowance for Bad Debts, beginning	<b>2,216,090,118</b>	1,941,355,485
Provision for bad debts (debited to Deferred Tax Asset account )	<b>188,581,732</b>	274,734,632
Tax Rate	<b>30%</b>	30%
Income Tax Benefit	<b>56,574,519</b>	82,420,390

The computed Income Tax Benefit does not include the CY 2010 gain on foreign exchange.

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**26. AUTHORIZATION TO ISSUE FINANCIAL STATEMENTS**

The LWUA Board of Trustees adopted on February 22, 2011, Resolution No. 32 Series of 2011. Such authorized the issuance of LWUA's Calendar Year 2010 Financial Statements, in compliance with the Philippine Accounting Standard No. 10.

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**27. INTERESTS AND OTHER DEBT SERVICING CHARGES**

The amounts presented in the Cash Flow Statement ( P347,022,839 for 2010 and P419,844,524 for 2009 ) represent payments for interests and Other Debt Service Charges 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.

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**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 June 2010, Local Water Utilities Administration was a beneficiary of a subsidy received from the DOH in the amount of P375,000,000. The amount was intended for the supply of potable water to waterless municipalities as per Memorandum of Agreement by and among DOH, LWUA and the Department of Budget and Management. The amount was acknowledged by LWUA under Official Receipt No. 252533.

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**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."

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**30. DIVIDENDS PAID**

LWUA did not declare dividends for CYs 2010 and 2009 in view of its requests with the Department of Finance (DOF) for exemption from 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

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### **31. CONTINGENCIES**

LWUA is contingently liable for lawsuits or claims filed by third parties, which are either pending in the courts or are under negotiations. These cases involve, among others, civil actions for reconveyance of title/ properties, return of investment, eminent domain, collection of sum of money, and other land tenure problems. There is no provision for contingency recognized in the financial statements since the outcome of the said lawsuits are not presently determinable.

The significant legal cases are as follows:

- a. Honorable Jed Patrick E. Mabilog vs. LWUA, et al
- b. Metro Iloilo Water District Board of Directors, Petitioner vs. LWUA, et al
- c. Jalbuena, Plaintiff vs. MIWD Board of Directors and Edwin Reyes, MIWD IGM, Defendants
- d. LWUA Employees Association for Progress (LEAP), Petitioner vs. LWUA Chairman Prospero A. Pichay as Chairman of LWUA Consult Inc., and Administrator Daniel I. Landingin as Acting President of LCI and Members of LCI Board, Respondents
- e. Engr. Felipe G. Picazo, Petitioner vs. Daniel I. Landingin et al, Respondents
- f. Tapilon Rural Waterworks and Sanitation Assoc. Inc. (TARWASAI), Petitioner vs. LWUA, et al, Respondents
- g. RD Policarpio & Co., Inc., Claimant vs. Butuan City WD & LWUA, Respondents
- h. LWUA vs. Municipality of Borbon, Cebu et al
- i. Melchor Beltran, Plaintiff vs. Bonbon RWSA & LWUA
- j. Norma P. Somoray, et al, Plaintiffs vs. Serapia Obayan & LWUA, Defendants
- k. Buhi Rural Waterworks and Sanitation Asso., Inc. (BRWSA, Inc.), et al, Petitioners vs. Buhi Rural Waterworks and Sanitation Multipurpose Coop., et al, Defendants
- l. Atty. De Jesus, Petitioner vs Office of the Ombudsman, et al, Respondents
- m. Felipe Sarmiento, Petitioner vs. Hon. Orlando Hondrade, et al, Respondents
- n. LWUA's Rationalization case which is still pending at the Quezon City RTC

**32. Report on the Supplementary Information required under Bureau of Internal (BIR) Revenue Regulation 15-2010**

Records show that LWUA is a VAT registered corporation, however, input VAT was not recognized on all its procurement of goods and services. In a letter dated October 22, 2010, LWUA, thru the Office of the Government Corporate Counsel (OGCC), has filed a protest to the BIR, protesting BIR's Letter of Authority (LOA) No. 039-2010-299 issued on September 29, 2010. The following reasons were cited by the OGCC :

- The LOA is legally defective, void and unenforceable for failure to specify the kind of tax to be examined;
- The LWUA remains exempted from the payment of income taxes and percentage taxes by virtue of Republic Act No. 10026;
- The gross revenues of the water district are excluded from the computation of gross taxable income subject to percentage taxes, hence, not covered from the imposition of franchise and value added taxes

Taxes, licenses, and withholding taxes accrued and paid during the year were as follows :

<b>Taxes and Licenses</b>	<b>2010</b>	<b><i>Paid in 2010 for taxes incurred in Prior Years</i></b>
Corporate Income Taxes		
Paid in 2009 *	48,330,223	
Paid in 2010 **	62,719,715	
To be paid in 2011	44,470,310	
Total before income tax benefit	155,520,248	
Income Tax benefit	56,574,519	
Provision for Income Tax	<b>98,945,729</b>	
Add:		
Fringe benefit taxes	6,946,194	1,927,593
Documentary stamp tax	2,298,233	
Total taxes and licenses	108,189,556	1,927,593
Add : Taxes withheld		
On compensation	22,338,275	
Creditable withholding taxes	4,819,166	
Final Withholding taxes	6,100,795	
On WDDP Deposits	1,495,936	
Taxes withheld	34,754,172	
<b>Total taxes and licenses paid / accrued / withheld</b>	<b>142,943,728</b>	<b>1,927,593</b>

\* There was an overpayment of P48,330,223.51 in the corporate income tax due for CY 2009. This was presented in the Cash Flow of 2009. This overpayment was applied subsequently in tax year 2010 for first and second quarter of 2010.

\*\* To Cash Flow Statement

Pursuant to Section 33 of Republic Act (RA) 8424, otherwise known as Tax Reform Act of 1997, fringe benefit taxes were treated by LWUA as charges to its operations.

### *Section 33 . Special Treatment on Fringe Benefits*

*“A) Imposition of Tax.- A final tax of thirty-four percent (34%) effective January 1, 1998, and thirty three percent (33%) effective January 1, 1999; and thirty two percent (32%) effective January 1, 2000 and thereafter, is hereby imposed on the grossed up monetary value of fringe benefit furnished or granted to the employee (except rank and file employees as defined herein) **by the employer** (underscoring ours ), whether an individual or a corporation ( unless the fringe benefit is required by the nature of, or necessary to the trade, business or profession of the employer, or when the fringe benefit is for the convenience or advantage of the employer). The tax herein imposed **is payable by the employer** which tax shall be paid in the same manner as provided for under section 57(A) of this Code. xxx.”*

LWUA records further show that there were no tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR. Likewise, there were no known amounts of deficiency tax assessments, whether protested or not.



# COMMENTS AND OBSERVATIONS

## FINANCIAL AUDIT

- 1. Financial assistance released to Water Districts in the amount of P2.347 billion as of December 31, 2010, or 52% of the carrying amount of the total receivables, were recognized as claims from the National Government despite the absence of legal basis or document to support the claim.**

In CY 2009 Annual Audit Report we have observed that the receivable from the Government of the Philippines (GOP) has no legal basis or legal document to support the claim except for the verbal commitment from the Office of the President thru the Presidential Social Fund (PSF) to release P6 billion for the project. Management explained that LWUA will pursue the collection of the PSF from the National Government as the said fund was already committed for the implementation of the Water Supply Project under the President's Priority Program on Water (P3W).

We then recommended that in the event the release of the PSF will no longer be feasible in view of the change in the administration, LWUA will have to find ways to meet its financial commitments to the water districts, municipalities and/or barangays and that adjusting entries be made in the books of accounts.

There was no PSF fund received in CY 2010 but Management continue to release funds to various water districts using the LWUA Corporate Fund which amounted to P1,176,224,725.39. Comparison of year end balances would show the increase as follows:

	December 31, 2010	December 31, 2009	Increase
Miscellaneous Receivables -GOP	P2,347,635,781.76	P1,171,411,056.37	P1,176,224,725.39

We are reiterating our previous year's recommendations (i) for the reversal of entries made and that the releases to the water districts be treated as loans receivable; (ii) that the financial assistance granted to the water districts be funded from the intended sources and (iii) that prior approval from the LWUA Board of Trustees should be secured for corporate funds utilized for other purpose.

Management informed that they are now in the process of scrutinizing and classifying fund releases to various water districts in order to come up with proper charging of accounts and reconciliation for the correct amount to be adjusted/reversed.

In the exit conference, Management commented that the recommendation for the reversal of entries and that the releases to the water districts be treated as loans receivable cannot be implemented as there was a Memorandum of Understanding between LWUA and the Water Districts that a portion of such releases will be treated as Grants to Water Districts.

The previous recommendation was made in order for LWUA to recover the amounts released to the Water Districts. However, if the same cannot be implemented, Management should take other course of action to recover the funds released. Otherwise, the persons responsible for the disbursements without authority to charge it from the non existing fund should be held liable.

2. **The cash and cash equivalents in the amount of P639.5 million is not sufficient to cover all recognized trust liabilities of LWUA as of the same date of P1.973 billion. More specifically, the Water District Portfolio Fund of P 1.9 million is not enough to pay the maturity/termination value of the deposits made by the Water Districts of P154.3 million.**

Section 6 of the GAA FY 2010 provides that trust funds shall not be paid out except for the fulfillment of the purpose for which the fund was received.

Grants/subsidies received from the National Government for the development of various waterworks programs are recorded as a trust account (liability for special funds) upon receipt. On the other hand, the Water District Portfolio Accounts are deposited by the Water Districts as reserve funds for the purpose of ensuring repayments of its obligations. The deposit plus interest is repayable to the water district on due date.

Balance Sheet of LWUA as of December 31, 2010 showed the following balances:

Cash		
Cash in banks		P 562,811,804
Cash on hand		38,793,304
Short Tem Deposits		<u>37,902,969</u>
Total Available Cash		<u>P 639,508,077</u>
Trust Liabilities		
Due to Government Owned & Controlled Corporations		P168,796,130
Due to BIR		54,663,236
Guaranty Deposits Payable		60,933,985
Other Payables		<u>1,689,055,569</u>
		<u>P1,973,448,920</u>

Meanwhile, the Cash Special Savings Deposits – Water District Deposit Portfolio (WDDP) has a balance of P1,974,198 only while the total deposits made by the Water Districts under the Depository Liability account amounted to P154,358,295.

As can be gleaned from the foregoing information, the cash and cash equivalents are not sufficient to pay the various trust accounts of LWUA. Management failed to keep the trust receipts intact so as to meet its obligation to extend financial assistance to the Water Districts for the development of waterworks projects and the remittances to the government agencies of the statutory obligations and the possible claim of the contractors for the refund of the retention money.

This maybe partly attributed to the adjustment in the books of accounts in the amount of P666,581,409 in December 2010 under JV No. 137-10 wherein financial assistance granted to Water Districts previously debited to the Trust Account (Liability for Special Fund) were reclassified to Miscellaneous Receivables – Government of the Philippines. The account Liability for Special Fund was again credited in recording the transaction.

Likewise, the cash held by LWUA for the WDDP is also not enough to pay the Water Districts upon termination/withdrawals of its deposits.

Management informed that they are now in the process of scrutinizing and classifying fund releases to various water districts in order to come up with proper charging of accounts and reconciliation for the correct amount to be adjusted/reversed.

On the Water District Deposit Portfolio (WDDP) fund, management explained during the exit conference that the fund was being used to relend to Water Districts and that they are keeping track of the maturity period of these deposits to facilitate payment when due.

We recommended that Management strictly monitor its cash flows to ensure that trust funds are disbursed solely for the intended purposes and strictly adhere to the provision of Section 6 of the GAA FY 2010.

**3. The accuracy and reliability of the balances of the Liability for Special Fund accounts in the amount of P1.02 B is doubtful due to stale/cancelled and unreleased checks in the amount of P103 million at December 31, 2010 that were not adjusted back to cash in bank resulting in the understatement of both the cash in bank and liability for special funds accounts and overstatement of loans receivable to Water Districts.**

Included in the Liability for Special Fund Account are grants/subsidies received from the DOH and DPWH which as of December 31, 2010 showed the following subsidiary ledger balances:

<u>Agency</u>	<u>Amount</u>
DPWH (P3W)	102,200,116.27
Department of Health	917,145,732.59
Total	<u>1,019,345,848.86</u>

Meanwhile, the ending balance of the Liability for Special Fund – President Social Fund (PSF) was reclassified to Miscellaneous Receivables – Government of the Philippines at the end of the year

Analysis of the accounts showed that LWUA checks were prepared as disbursements for the release of funds to the Water Districts and were recorded as deductions from the funds received from the DOH, DPWH, PSF (using LWUA Equity funds) in the Project Cash Disbursement Register (PDR). However, these checks were not actually released to the Water Districts for unknown reasons. Hence, at the end of the month, an adjusting entry is prepared to record the unreleased checks. In the subsequent month, a reversing entry is prepared to record again the unreleased checks as check disbursements for the month.

LWUA Management could not explain the need for preparing the checks, recording it in the books but not releasing it to the concerned Water Districts until it become stale check. It is the usual practice to prepare checks when actual payments are to be made.

Furthermore, we noted that checks payable to the Water Districts were reported staled/cancelled per Monthly Report of Cancelled/Spoiled/Staled Checks for the month of August 2010 and for the period October to December 2010 totalling P103,320,502.42 but these were not recorded in the books, thus understating the Liability for Special Fund/Loans Receivable accounts and the corresponding cash in bank accounts, to wit:

<u>Bank account</u>	<u>Month</u>	<u>Amount</u>
LBP 142-1007-16	August	40,635,749.22
	October	2,945,177.00
	November	5,469,863.00
	December	<u>54,269,713.20</u>
Total		<u>P103,320,502.42</u>

We recommended that Management stop the practice of preparing checks but not releasing it and consider the procedure of immediately issuing out the signed checks, especially those payable to the Water Districts and chargeable to the Liability for Special Fund account, and to prepare adjusting entry to record the amount of stale checks not recorded in the books.

Management took note of the recommendation and informed that the unrecorded stale checks were reversed in February 2011.

**4. The balance per books of certain foreign loans payable in the total amount of P3.419 billion as of December 31, 2010 differ from the confirmed amounts in the total amount of P2.837 billion, or a net variance of P 582 million.**

Confirmation of outstanding balances of the Loans Payable –Foreign received from three (3) foreign lending institutions, out of the six (6) confirmation letters sent, showed that only one (1) loan account balance, the AUSAID/EFF 378 in original currency of \$60,636.76, reconciled with the LWUA records. On the other hand, confirmation replies from the Asian Development Bank and the KFW revealed a net variance of P581,620,923.47 between the balance of the loan in the original currency per LWUA records and the amounts confirmed recomputed at the BSP exchange rate as of December 31,2010.

Results of confirmation of outstanding balances of the Loans Payable –Foreign  
In Original Currency

Loan account	Currency	Per LWUA records	Per confirmation from foreign bank	Difference
ADB 1599	USD	251,734.89	913,429.99	661,695.10
ADB 1472	USD	17,627,020.35	19,002,076.41	1,375,056.06
ADB 1269	USD	12,714,655.14	12,833,654.58	118,999.44
ADB 1056	USD	10,560,700.99	12,262,790.51	1,702,089.52
ADB 1057	USD	1,003,008.68	963,162.45	(39,846.23)
KFW	Euro	14,145,483.33	14,123,251.65	(22,231.68)

Results of confirmation of outstanding balances of the Loans Payable –Foreign  
In Philippine Peso

Loan account	Per LWUA records	Per confirmation from foreign bank	Difference
ADB 1599	P 13,114,268.07	P 40,085,875.11	P (26,971,607.04)
ADB 1472	1,028,261,026.89	833,906,123.25	194,354,903.64
ADB 1269	754,549,496.60	563,204,931.24	191,344,565.36
ADB 1056	612,753,060.06	538,152,561.53	74,600,498.53

ADB 1057	64,449,018.78	42,268,384.12	22,180,634.66
KFW	945,733,649.95	819,621,724.63	126,111,925.32
Total	P3,418,860,520.35	P2,837,239,599.88	P581,620,920.47

We recommended that the Accounting Division should regularly reconcile the balances of the Loans Payable- Foreign accounts to fairly present the accurate amount of foreign loans outstanding at the end of each year.

Management agreed to prepare the reconciliation statements for the Loans Payable-Foreign accounts.

**5. Erroneous posting from the Journal Voucher Register (JVR) to the General Ledger of the balances of the accounts Liability for Special Fund and the Cash in Bank for the month of September 2010 remain uncorrected at the end of the year resulting in the discrepancy of P114.89 million between the General Ledger balance and the Trial Balance/Balance Sheet of the said two accounts.**

The Journal Voucher Register is the registry of all Journal Vouchers issued during a particular period. The totals of each account are summarized at the end of each month and posted in the General Ledger which should agree with the amounts in the Trial Balance.

Audit of the accounts Liability for Special Fund (Account **8-84-930**) and Cash in Bank – Equity (Account **8-70-300**) showed a difference of P114,892,538.26 between the Trial Balance/Balance Sheet and the General Ledger as of December 31, 2010 as shown below:

Account	Account Code	Balance per GL	Balance per Trial Balance/Balance Sheet	Difference
Cash in Bank– Equity Account	8-70-300	P 312,174,138.50	P 427,066,676.76	P114,892,538.26
Liability for Special Fund	8-84-930	P1,397,696,063.50	P1,512,588,601.76	P114,892,538.26

The discrepancy was due to the uncorrected error in posting of the said account balances in September 2010. Verification of the Liability for Special Fund account revealed that the total credits in the JVR for the month of September 2010 was P451,535,536.24. However, the amount posted as total credits in General Ledger amounted to only P336,642,997.98 with a difference of P114,892,538.26.

Analysis showed that the difference was due to two journal entries in the JVR that bear the same Journal Voucher (JV) No. 09-119-10 both dated September 30, 2010. One JV is to record deposits for the month of September in the amount of P147,550,343.89 and another is to take up unreleased checks for the month of September in the amount of P114,892,538.26. However, the JV to record the unreleased checks for the month of September 2010 in the amount of P114,892,538.26 was not posted in the General Ledger.

Similarly, the corresponding debit to the account which is the Cash in Bank – LWUA Equity showed a discrepancy between the GL balance and the JVR in the amount of P114,892,538.26.

However, we noted that although the balances of the Cash in Bank and Liability for Special Funds per General Ledger were both understated by P114,892,538.26, the amounts

reported in the Trial Balance/Balance Sheet already includes the amount of the unrecorded JV in the General Ledger. It is unclear how the difference of P114,892,538.26 was reflected in the Trial Balance/Balance Sheet to arrive at the account balance for Cash in Bank-LWUA Equity and the Liability for Special Fund in the amount of P 427,066,676.76 and P1,512,588,601.76, respectively, when such amount was not posted in the General Ledger.

We recommend that Management (i) should ensure that the financial data shown in the Financial Statements and the Trial Balance agree with the account balances appearing in the General Ledger and (ii) to submit a clarification on how the account balance for Cash in Bank and Liabilities for Special Fund were arrived at considering the error in posting in the General Ledger.

Management commented that the Journal Voucher taking up the unreleased checks for the month of September 2010 was inadvertently omitted in the course of General Ledger preparation for the 4<sup>th</sup> quarter of CY 2010 using the in-house designed program. As a result, the financial data shown in the Financial Statements and Trial Balance did not agree with the Cash in Bank and Liability for Special Funds account balances. Nonetheless, the accuracy of accounting information being processed using the BALMORI Software was not and will not in any way be affected by such an omission.

To avoid similar occurrences in the future, measures were undertaken by the concerned unit by installing additional quality check points during the processing stage and before the final release of the Financial Statements and other reports.

**6. A net variance of P92.93 million exists between the balance per books and the confirmed bank balance for the Cash in Bank Local Currency Current and Savings Accounts. Moreover, the bank statements for the Cash in Bank Collection Fund Account and the LWUA-Nippon Joseguido Sekkei (NJS) Joint Account (JA) were not updated.**

The balance per books of the Cash in Bank – Local Currency Accounts as of December 31, 2010 in the amount of P538,736,916 is lower by P92,927,327 when compared with the balance confirmed by the banks in the total amount of P631,664,243. Details shown below:

Account	Amount per books	Amount per bank	Difference
Cash in bank – Local Currency-Current	P103,552,169	P196,538,417	P92,986,248
Cash in bank – Local Currency-Savings	435,184,747	435,125,826	( 58,921)
Total	P538,736,916	P 631,664,243	P92,927,327

The variance was mainly due to the following:

Outstanding checks as of December 31, 2010	P135,583,218
Unreconciled difference for the Collection Fund Account	( 42,594,277)
Unreconciled difference for LWUA-NJS JA	( 20,693)
Adjustments not taken up in the books as of December 31,2010	30,000

Dormant bank accounts not confirmed by the banks	( 70,921)
Total	P 92,927,327

The unreconciled difference for the Collection Fund account and LWUA-NJS Joint Account in the amount of P42 million and P20,693 respectively could not be verified due to lack of updated bank reconciliation statement. The last monthly bank reconciliation statement submitted for the Collection Fund Account and the LWUA-NJS Joint Account was up to December 2006.

Further, there are four bank accounts that remain in the books of LWUA but are either inactive or closed and not confirmed by the banks, to wit:

Bank Account Number	Amount
PNB CA No. 244-85006-27 Earthquake Rehab	P 2,000
LBP SA No. 03-504-3401-0257-73 AR Bonds	10,000
LBP SA No. WD Branches	54,250
PNB SA No. 244-702458-9 Special Bank Charges	4,671
Total	P70,921

The above observations had been reported in the previous Annual Audit Reports.

We reiterated our recommendation that monthly bank reconciliation statements for the Collection Fund Account and LWUA-NJS Joint Account should be updated to properly account and report the correct cash in bank balances. For closed accounts but still appearing in the books, proper representation with the bank should be undertaken for the retrieval of the bank statements and for corresponding adjustments.

Management agreed to update the monthly bank reconciliation statements for the Collection Fund Account and LWUA-NJS Joint Account and will make proper representation with the bank for the retrieval of the bank statements and for corresponding adjustments

**7. Advances to Water Districts in the amount of P 24.2 million were still outstanding even though the projects have been completed while P2.3 million remains dormant for more than ten (10) years.**

The Advances to Water Districts account in the amount of P26, 567,482.66 as of December 31, 2010 pertains to the release of funds to the Water Districts for earthquake rehabilitation and to defray take over expenses. The amounts released shall be subject to liquidation as soon as the purpose for which it was given has been served.

We have brought to the attention of management the issue on the unliquidated advances to Water Districts in the CY 2009 AAR and we were informed that necessary adjustment will be made as soon as the required liquidation documents are made available to support appropriate entries in the books of accounts.

As to the advances made for the rehabilitation of projects damaged by typhoon Reming, management commented that of the total cash advances outstanding as of December 31, 2009 totaling P31.219 million, about 97% or P29.9 million were liquidated after the Balance Sheet Date, which was supposed to be in CY 2010.

However, review revealed that the only transaction recorded in the books in CY 2010 was the reclassification to the grants account of the amount of P7 million released to the Manolo Fortich Water District in Bukidnon. Therefore, the advances to the Water Districts in the amount of P24.2 million are still outstanding even though the project have been completed while P2.3 million are dormant for more than ten (10) years.

We reiterated our recommendation for Management (i) to exert effort to require the concerned Water District to liquidate their respective advances and (ii) to facilitate the immediate processing of the liquidation vouchers submitted in order to update their accountability.

No management comment was received on the issue.

**8. The reliability and validity of Payables – Miscellaneous account in the amount of P8 million or 49% of total payable of P17 million is doubtful due to dormant accounts.**

Verification of the Payables – Miscellaneous Account showed that 49% of the outstanding balance of P17,487,652.33 or P8,208,801.79 as of December 31, 2010 are dormant accounts since 2002 to 2007 as shown below:

Year the account become dormant	Amount
2002	P3,058,362.30
2003	222,735.47
2004	382,733.80
2005	39,331.33
2006	3,887,870.75
2007	617,768.14
Total	P8,208,801.79

The Miscellaneous Accounts Payable that remain dormant from three to nine years include payables to various employees, suppliers and contractors in the amount of P181,047.86, P1,236,046.65 and P6,791,707.28, respectively, or a total of P8,208,801.79.

These dormant accounts cast doubt on the reliability and validity of the payable accounts of P8 million.

Management informed that the outstanding balances were due to the non-submission of valid claims/request for payment from payees.

We recommended that Management review and analyze the account to determine whether there are still valid claims to these payables. Otherwise, necessary reversing entries should be made to close the account.

**9. Unreconciled difference of P1.38 million between the payroll fund book balance and the cashbook of the Disbursing Officer**

The Payroll Fund, the account used to record payments of salaries and allowances of cadet engineers of LWUA, has an outstanding balance of P1,469,087.04 as of December 31, 2010.

The cash book of the Disbursing Officer however showed only a balance of P85,858 representing excess amount from the CY 2010 anniversary incentive allowance granted on December 17, 2010. Thus, a difference of P1,383,229.04 exists between the payroll fund book balance and the cash book of the Disbursing Officer as at the end of the year.

In CY 2009 AAR, we have observed that the said discrepancy was due the unliquidated cash advances for salaries and wages granted before CY 2005 appearing in the books of accounts. On the other hand, the Disbursing Officer alleged she has already liquidated said cash advance.

We reiterated our recommendation for the immediate reconciliation of the accounting records with the Disbursing Officer's cash book so that final accountability, if any, could be determined.

It was explained during the exit conference that on-going reconciliation is still being undertaken.

**10. The LWUA investments of P480 million and deposit of P300 million with the Express Savings Bank Inc. (ESBI) were still not terminated/recovered despite BSP Monetary Board Resolution Nos. 605 and 1301 dated April 29, 2010 and September 16, 2010, respectively, which disallowed the transfer of 60% share of the total voting stock of ESBI to LWUA and directed ESBI to return all government deposits from various government agencies.**

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. LWUA paid P80,003,070 for the 445,377 shares to various owners of these shares after the execution of a Deed of Absolute Sale by and between the original owners (as the seller) and the LWUA (as the buyer).

The bank also applies for a quasi-banking authority with BSP, one of the requirements of which is to comply with the minimum adjusted capital accounts of at least P650 million or such amounts as maybe 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 paid the amount of P400 million on August 25, 2009 as an advance payment to the capital subscription pending approval by the BSP and registration with the Securities and Exchange Commission (SEC) of the amended Articles of Incorporation.

In the LWUA Annual Audit Report for CY 2009, we noted that the Investments to ESBI totaling P480 million are contrary to the provision of Section 15 of the General Appropriations Act (GAA) for Fiscal Year 2009 which states that:

“Sec15. Restrictions on the use of Government Funds. No government fund shall be utilized for the following purposes:

xxx

- (f) To be invested in non-government securities, money market/placement and similar investments or deposit in private banking institutions.

The provisions of this Section shall also apply to GOCCs. xxx”

This provision is also reiterated under Section 17 of the GAA for FY 2010.

We also observed that the Investment/advances to ESBI are considered disadvantageous to LWUA and that the said investment was not supported with any Memorandum of Agreement or Certificates of Investment that would provide protection for LWUA'S investment/advances.

Likewise, Management failed to submit duly certified copies of the following documents which they previously promised that they will require ESBI to execute and submit to COA:

1. Certificate of stocks/shareholding of LWUA issued by ESBI for the P480 million purchase/investment;
2. Branching Authority from Bangko Sentral ng Pilipinas (BSP) issued to LWUA for the latter to operate a branch of the ESBI bank within the LWUA premises. ESBI is currently operating within the LWUA premises, as extension of the Main Branch;
3. Registration with the SEC of the amended Articles of Incorporation;
4. BSP's Monetary Board approval on the P80 million transfer of shares in compliance with BSP Circular No. 309 dated November 16, 2000 and the P400 million advances which aimed to satisfy the capital requirements of ESBI; and
5. Approval by the President of the Philippines for the creation of ESBI/WE bank.

Audit Query on the status of the application for approval of LWUA's acquisition of 60% of the outstanding voting stock of ESBI reveals that based on available documents, the Monetary Board in its Resolution Nos. 605 and 1301 dated April 29, 2010 and September 16, 2010, respectively, disallowed the transfer of 60% of the total voting stock of ESBI to LWUA and requires ESBI to return all government deposits from various government agencies. On November 15, 2010 the ESBI Chairman, Prospero Pichay, Jr. asked the BSP and the Monetary Board as to why LWUA is not qualified to acquire 60% of the voting stock of ESBI and to reconsider the denial for ESBI's request for approval. The Monetary Board Secretary informed Chairman Pichay that the request for reconsideration was referred to the BSP Deputy Governor, Supervision and Examination Sector for appropriate action. However, neither LWUA nor ESBI have been notified of BSP's official action on the matter.

To this date, P480 million is still invested with ESBI and another P300 million was still deposited to the accounts of ESBI. No remedial measures to recover the return of investments are being instituted by LWUA.

We reiterate our recommendations that Management should consider terminating the investments and institute remedial measures to recover the return of the P480 million investments and the P300 million deposits from ESBI in view of the Monetary Board Resolution Nos. 605 and 1301. If the investments and deposits will not be recovered, appropriate charges should be filed against persons responsible for the investments/deposits not recovered.

Management comment is quoted hereunder:

“ On the onset, we would like to reiterate that the ESBI investment was done with prior consultation. The records will show that LWUA sought approval from the Office of the President thru then Executive Secretary Eduardo Ermita per the latter’s Memorandum dated 14 October 2009. Likewise, the Office of the Government Corporate Counsel (OGCC) issued Opinion No. 242 Series of 2008 dated 16 October 2008, and OGCC Letter dated 14 September 2009, that favourably approved the ESBI investment. This emphasizes LWUA’s transparency with all its transactions.

We would like to bring your attention to the fact that if the ESBI investment was infirm from the very start then the Bangko Sentral ng Pilipinas ( BSP) and the Monetary Board (MB) should have advised LWUA immediately or, at the very least, they should not have encouraged such investment. However, the BSP and MB did the direct opposite by advising LWUA to further address the deficiency requirements of ESBI and to submit additional documents in support of the investment as clearly set written in the letters of the Integrated Supervision Department II dated 17 August 2009 and 10 September 2009. On the contrary, the BSP declared in its letter dated 22 January 2009 that LWUA should just acquire an existing bank in view of the former’s moratorium. Since neither the BSP nor the MB prevented the said investment, there is truly nothing unsound with it.

The money for the ESBI investment came from internal cash generation (ICG) or collections from loans from water distribution. Such monies are corporate funds that do not fall within the purview of the General Appropriations ACT (GAA). Moreover, the restrictions under Section 15 (f) of the GAA are limited only to investments on “non-government securities, money market placements and similar investments, or deposit in private banking institutions.” Since the LWUA investment with ESBI does not fall under any of the aforementioned restrictions, there is no violation of Section 15 (f) of the GAA

On the matters of the documentary requirements, we clarify as follows:

1. We respectfully request that we defer the submission of the Amended Articles of Incorporation, the BSP/MB approval and the certificate of stocks for the Php400 million investment because these are dependent upon the final resolution of LWUA’s request for reconsideration.

2. For PHp80 million investment (out of the PHp480 million thereof), we may submit certified copies of the corresponding certificate of stocks to your good office.
3. ESBI is not operating as a branch in LWUA, but only acts to receive and process documents from water districts for the latter's convenience instead of going to Cabuyao, Laguna from LWUA.
4. The President's approval was already obtained through Executive Secretary Eduardo Ermita who issued Memorandum dated 14 October 2009, as previously discussed.

Separately, we recognize the authority of the Honorable COA to audit and examine public funds and LWUA's accounts. However, we believe that there is a need to draw a line between such authority and questioning the management's decisions. Inasmuch as we would like to address the issues raised in the captioned AOM, none of us can do so until the ESBI investment has been absolutely resolved. Clearly, it is too early on your part to recommend further action or even assume that charges would be filed.

As the captioned AOM itself stated, the matter of approval of LWUA's investment with ESBI is still pending consideration before the MB per the letter of the Office of the Secretary, Monetary Board dated 22 November 2010. Simply put, it is premature at this point in time to make any conclusions, steps or recommendations unless the matters surrounding the said investment have attained finality."

The new Acting members of the Board of Trustees of LWUA informed the Audit Team that they already approved and issued Board Resolution No. 74 Series of 2011 directing the LWUA Administrator and the Acting Deputy Administrator for Investment and Financial Services to initiate the immediate transfer of LWUA deposits/investments with all non-government banks, including the Express Savings Bank, Inc. (ESBI), to authorized government depository banks.

**11. Securing a loan in the amount of P500 million from the Philippine Veterans Bank while allowing a cash deposit of P300 million to remain idle in a thrift bank, Express Savings Bank Inc (ESBI) did not constitute sound fund management resulting in a lower interest income earned of P2.7 million and an unnecessary interest expense of P16 million. Likewise, the deposit made with ESBI, a non government depository bank, was contrary to Department of Finance (DOF) Department Order No. 27-05.**

LWUA made an initial deposit in the amount of P300 million with Express Savings Bank (ESBI) on October 9, 2009 based on the Board of Trustees Resolution No. 303 series of 2009. Analysis of the transaction revealed that as of December 31, 2010 the fund remained intact earning an interest income of P2,707,353.65 only.

On the other hand, we noted that LWUA secured another loan from the Philippine Veterans Bank in the amount of P500 million on February 2, 2010 with yearly interest ranging from 6.8178% to 7.2004% for the purpose of financing its water supply projects nationwide. For CY 2010, the interest paid for the said loan amounted to P29, 054,772.71.

Securing a loan and paying interest while allowing the cash deposit in Express Savings Bank to remain idle for more than one year did no constitute sound fund management. Had management make use of its idle funds with ESBI Bank of P300 million, it will avail only of a P200 million loan from the PVB and the interest due thereon will only be P12,722,187,22 or a savings of P16,332,585.49 or 52% of the total interest paid.

Likewise, the deposit made at ESBI bank was contrary to DOF Department Order No. 27-05 dated December 9, 2005 which prohibits any government agencies, including Government Owned or Controlled Corporation to deposit government funds in any other banks except authorized government depository banks. Under the guideline, prior DOF approval is to be secured if funds are to be deposited in banks other than the Land Bank of the Philippines and the Development Bank of the Philippines.

The Bangko Sentral ng Pilipinas in a Circular Letter series of 2006 issued on March 14, 2006 reminded the banks to take appropriate measures to ensure that government offices that maintain deposit accounts with them have complied with the DOF directive, otherwise, affected deposit accounts may have to be closed.

We recommended that Management consider closing the deposit accounts with the ESBI bank amounting to P300 million in compliance with the DOF Department Order 27-05 and use the fund in financing its water supply projects before renewing and securing new loans with other banks.

Management comments are quoted hereunder:

“On the matter of securing loans from the Philippine Veterans Bank (PVB), this is part of LWUA’s overall strategy intended to widen its possible fund sources, especially in times of urgent needs.

The P300 Million which LWUA deposited with Express Savings Bank, Inc. (ESBI) was necessary in order to address the capital inadequacy of the Bank, and as directed by BSP. The impact of this deposit made may not be realized overnight, but given time, we believe that this action on the part of LWUA can be a positive and rewarding investment.

Consequently, we will defer taking action on your recommendation to close the LWUA account with ESBI considering that request for approval of LWUA’s acquisition of 60% of the voting stocks of ESBI is still pending with BSP and the Monetary Board.

On the other hand, we believe that LWUA can deposit such amount with ESBI considering that LWUA is deemed majority owner of the Bank.

Finally, while we do take note of your audit observations, our agency’s long-term goal to expand its business operations within the parameters of its charter, must likewise be given due course. The responsibility to set policies and programs belong to us, hence, we cannot be stymied by any form of interference in the exercise of our prerogatives.”

While fiscal responsibility rests with the Head of the Agency it is also the role of COA under Section 25(1) of PD 1445 to ensure that such fiscal responsibility of the Head of Agency has been properly and effectively discharged.

The new Acting members of the Board of Trustees of LWUA informed the Audit Team that they already approved and issued Board Resolution No. 74 Series of 2011 directing the LWUA Administrator and the Acting Deputy Administrator for Investment and Financial Services to initiate the immediate transfer of LWUA deposits/investments with all non-government banks, including the Express Savings Bank, Inc. (ESBI), to authorize government depository banks.

**12. Grants / subsidies received from the National Government as Budgetary Support to Government Corporation in the amount of P399 million remain unutilized thus, defeating the purpose for which it was granted.**

LWUA received grants/subsidies in CY 2009 from the National Government as Budgetary Support to Government Corporation in the amount of P400 million.

Special Provision No. 8 of the General Appropriations Act for CY 2009 on Budgetary Support to Government Corporation stated that the subsidy for Projects of the Local Water Utilities Administration shall be used exclusively for the projects of water districts and that unless otherwise provided in the terms and conditions of the grant, all grants and subsidies to water districts shall be actually transferred to the exclusive account of the water districts which shall implement the project, or bid the same to qualified contractors, or do the actual purchase of materials needed in the construction, repair or rehabilitation of the respective water projects.

The subsidiary ledger for the Liability for Special Fund Account - Budgetary Support to Government Corporation as of December 31, 2010 showed a balance of P393,403,169 and the disbursements from the fund amounted to only P6,596,831 consisting of the following:

Date	Check no	Payee	Amount
December 29, 2009	402402	Jaen Water District	P 934,888
April 19, 2010	402768	Cabarroquiz Water District	5,661,943
Total			P6,596,831

Audit revealed that Check Number 402768 dated April 19, 2010 amounting to P5,661,943 payable to Cabarroquiz Water District was not released for unknown reason until it eventually become stale as shown in the report of stale checks for October 2010. This was not recorded in the books thus, understating the fund balance of the Liability for Special Fund Account - Budgetary Support to Government Corporation by P5,661,943 and the corresponding Cash in Bank account. Management should not have prepared the check if the supporting documents are not complete.

Consequently, only the amount of P934,888 was actually disbursed out of the fund and the balance as of December 31, 2010 of the fund - Budgetary Support to Government Corporation shall be P399,065,112.

Failure to release the funds to the intended beneficiaries defeats the purpose for which it was granted by the National Government.

We recommended that Management immediately transfer the funds to the intended beneficiary Water Districts in accordance with the conditions in the Special Provisions of the

General Appropriation Act of CY 2009 to achieve the purpose for which it was granted and that appropriate adjusting entry be taken up in the books to record any cancellation of checks.

No management comment was received on the issue.

**13. Dividends payable to the National Government in the amount of P 671.86 million for Calendar Year 2008 has not been booked and remitted as required under Section 5 of RA 7656.**

Republic Act 7656 requires Government Owned and Controlled Corporations to declare and remit at least fifty percent of the annual net earnings as dividend to the National Government.

In Note 30 of the Notes to Financial Statement for CY 2009 it was disclosed that per LWUA Board Resolution No. 446 dated September 15, 2009 LWUA will defer payment of dividends until it shall have accumulated enough funds to increase its proposed capitalization from P2.5 billion to P25 billion. LWUA did not declare dividends for CYs 2008 and 2009 in view of its pending requests with the Department of Finance (DOF) for the exemption of dividend remittance.

The Department of Finance in its letter dated November 9, 2009 has billed LWUA the amount of P671.86 Million corresponding to a 100% dividend remittance to NG of LWUA's CY 2008 Net Income as adjusted.

The amount of P671.86 Million has neither been taken up as a liability in its books of accounts nor has been remitted to the National Government.

We recommended that LWUA recognize its dividends payable pending the approval of the exemption from the DOF so that the liability is recognized in the books of accounts.

Management informed that a letter to the Secretary, Department of Finance dated November 25, 2009 has been sent reiterating the request for exemption from remitting dividends from its earnings.

We believed, however, that pending the approval of the exemption from the DOF, it would be more prudent for LWUA to declare dividends and record the same as Dividends Payable in the books of accounts. Considering the possibility that the request for exemption may not be approved, it would be sensible to recognize the Dividends Payable in the LWUA books of accounts.

**14. The purchase of 100 units of portable equipment for water quality testing in the total amount of P109.89 million is not supported with available funds contrary to the provision of Section 85 of PD 1445. Furthermore, 34 units of the purchased portable equipment costing P37 million were confirmed not being used by the recipient Water Districts and therefore considered unnecessary expenditures.**

LWUA Board Resolution No. 530 dated October 13, 2009 authorized the negotiated procurement of portable water quality monitoring equipment for distribution to the Water Districts (WDs) throughout the country to help them conduct rapid testing/assessment of the water quality especially in situations where short term exposure is health related, such

as microbial contamination because of its potential to cause outbreaks of waterborne-diseases.

The recipient Water Districts were identified based on the following:

- Depressed WDs and those situated in islands or remote places that do not have easy access to nearby testing laboratories but have the available personnel to handle the water quality analysis. These WDs were identified/recommended by Areas 1 to 9 of Water District Development for Luzon, Visayas and Mindanao;
- WDs which are willing to undertake water quality analyses for other WDs or share the use of equipment to LGU-run water supply system and other private water supply providers within the area at reasonable service costs;
- WDs under the LWUA take-over management are also given preference to express support to the WD;
- WDs with water quality problems to ease the monitoring of questionable water quality parameters and facilitate appropriate measures;
- WDs where the Water Safety Plan (WSP) Program has already been introduced by LWUA for water quality testing and monitoring essential to said WSP.

Seminar /training workshops on the analyses and evaluation, operation and maintenance of said equipment were conducted for the recipient WDs.

However, the following observations were noted on the procurement of portable water quality monitoring equipment:

**The procurement was not supported with adequate funds contrary to the provisions of Section 85 of PD 1445 requiring the presence of appropriation before entering into contracts. The procurement was finally charged against the non-existing receivables from the National Government.**

One hundred (100) units of portable equipment for water quality testing was delivered to LWUA by Aspen Multi-System Corporation with contract cost of P109,888,999 inclusive of taxes or a unit cost of P1.1 million. The equipment was distributed to 97 Water Districts and three (3) units were for the use of LWUA Laboratory.

The purchase of said equipment was initially charged to the Liability for Special Fund account – President Social Fund (PSF) using the LWUA Equity fund, it being included in the LWUA Annual Procurement Program for CY 2009. However, at the end of CY 2010, the purchase was reclassified to Miscellaneous Receivable – Government of the Philippines. In previous Audit Observation Memorandum, we noted that recognizing the receivable has no legal basis or legal document to support the claim except for the verbal commitment from the Office of the President thru the Presidential Social Fund (PSF) to release P6 billion for the project.

In effect, no fund has been received from the National Government for the purpose and therefore, not in accordance with Section 85 of PD 1445 which requires that no contract involving the expenditure of public funds shall be entered into unless there is an appropriation.

**Thirty Five (35) units of portable water quality monitoring equipment costing P38 million were found not used by the recipient Water Districts based on the results of confirmation on the use of the equipment.**

Confirmation letters were issued to the 97 recipient WDs and to the LWUA laboratory to ascertain the following:

- if the equipment was received and being used;
- received but not being used;
- did not receive the equipment and;
- the personnel attended the seminar/workshop.

Summary results of confirmation showed the following:

Result of confirmation	Quantity	Cost (in million pesos)
Received and being used	45	49.45
Received but not being used	29	31.86
Received but returned to LWUA	11	12.09
Sub total	85	
No reply yet	12	13.18
Total	97	106.59
Given to LWUA Laboratory	3	3.30
<b>Total</b>	<b>100</b>	<b>109.89</b>

Of the three units given to the LWUA Laboratory, only two (2) units are presently at the Water Supply Training Center Laboratory while one unit which was used during the demonstration of the equipment last year remains at the Office of the Board Chairman of LWUA.

The Water Districts are not using the equipment due to the following reasons:

- Lack of funds to pay LWUA since the cost of the equipment was considered loans of the Water Districts;
- Defective units and expired powder reagents;
- Lack of laboratory room and chemist to do the water testing;
- Result of water testing not acceptable by DOH

The eleven (11) Water Districts that received and returned the equipment were the following:

1. Morong Water District, Bataan
2. Metro Kalibo Water District

3. Camarines Norte Water District
4. Oroquieta City Water District
5. Malay Water District
6. Peñaranda Water District
7. Cagayan de Oro Water District
8. San Joaquin WD
9. Dingle Pototan WD
10. Metro Bangued WD
11. Malitbog WD

The San Joaquin WD returned it due lack of funds and had no chemist to do the water testing. The other WDs did not give any reason for returning the equipment.

Based on the results of the confirmation, it may be inferred that the purchase and distribution of the portable equipment were not properly planned and coordinated with the concerned Water Districts prior to their purchase.

The replies given on why the units were not being used showed that information on the need of the Water Districts for the said equipment was not solicited. Likewise, the financial capability to pay was not taken into consideration in view of Management decision to bill 20% of the cost of the equipment from the Water Districts.

Management upon inquiry submitted information that the equipment that were returned were given to the following Water Districts:

1. Metro Siargao WD
2. Cantilan WD
3. Panabu WD
4. Gapan City WD
5. Sta Rita WD, Pampanga
6. Numancia WD
7. Morong, Rizal WD

Inspection revealed that the three units from Dingle Pototan WD, San Joaquin WD and Metro Bangued WD were left unused at the LWUA laboratory, the unit for Morong, Bataan WD was not claimed and that there were two units that have not been released and left idle.

Based on the above information, 35 units of water testing equipment costing P38,461,440 maybe considered unnecessary expenditures of government funds. Computation shown below:

29 units not used by WDs	P31,868,100
6 units idle/unused at the LWUA Lab	6,593,340
Total	P38,461,440

We recommended that Management immediately; (i) take appropriate action on how to make use of the 29 units received but not being used by the Water Districts and the six units not being used for the purposes it was intended, (ii) to require the supplier to remedy the defective units or replace it with new one as provided for in paragraph 17, Warranty of the General Provision of the Contract.

We also recommended that Management determine where the cost of the units will be charged other than the Miscellaneous Receivables – Government of the Philippines. Otherwise, persons responsible for the purchase without funds available may be held liable as provided under Section 87 of PD 1445.

Management explained during the exit conference that the procurement of portable equipment was funded under the DOH Fund and that they are going to scrutinize and classify fund releases in order to require Accounting Department to adjust the charging of the portable equipment to DOH Fund instead of Miscellaneous Receivables-GOP.

As to the distribution of the portable equipment, it was also explained that there was a prior survey conducted with the Water Districts on the need for procuring the equipment. They committed to give the planning documents to the Audit Team.

- 15. The IT consultant who recommended the award through direct contracting of the development of the Water District Geographical Information System & Database Management (WDGIS/DBM) did not pass the recruitment and hiring process for consultants required under RA 9184. Likewise, there was no contract agreement with LWUA which is not in accordance with the provisions of NCC Memorandum Circular No. 2004-01 dated June 7, 2004.**

Section 5 of the National Computer Center Memorandum Circular No. 2004-01 cites the role of the I.T. Professional in the procurement of Information and Communications Technology in the government. Pertinent provisions quoted hereunder:

“5.4 However, to facilitate project implementation, Section 53.(e) of the IRR-A allows the procuring agency who may not have the proficiency and capability to undertake a particular procurement, to recruit and hire consultants as procurement agents to assist them directly, or train their staff in the management of the procurement function. The ICT Consultant(s) must be hired based on their proven expertise, experience and capability and should not have any business interest on any of the items under bid.

5.5 In the absence of an I.T. Professional, the ICT Consultant may function as the I.T. Professional in the same procurement project, subject to the provisions of a service contract approved by the agency head upon recommendation of the BAC.” (underline supplied)

LWUA entered into a contract for the Water District Geographical Information System & Database Management (WDGIS/DBM) with Secur Links Network and Technologies Inc. in the amount of P223.8 million. The contract stated that:

“ WHEREAS, the LWUA BAC, as recommended by the professional IT Consultant, solicited information from five (5) IT companies to ascertain the reasonableness of price proposals and obtain information for integrated systems and solutions that will meet the objective defined in the Terms of Reference (ToR);

WHEREAS, out of the five (5) invited IT companies, only three responded and submitted the requested information;

WHEREAS, the LWUA BAC endorsed the three proposals to the professional IT consultant for evaluation and recommendations;

WHEREAS, the LWUA BAC in its Res. 40-09, adapted the recommendation of the professional IT consultant and recommended the award, through the direct contracting of the development of the “ Water District Geographical Information System and Database Management System (WDGIS/DBM), inclusive of the cost of application systems development, licensing and infrastructure to Secur Links Network and Technologies, Inc. xxx”

Information gathered revealed that the IT Consultant did not enter into any contract with LWUA and that the consultancy services were rendered at no cost to LWUA. The Board of Trustees approved the direct hiring of the professional IT Consultant.

Although the consultancy services rendered were free, the same should have been covered with a contract agreement as provided under NCC Memorandum Circular No. 2004-01. Without a contract, the obligation and undertakings of the Consultant cannot be defined and therefore the contractual agreement that could bind both LWUA and the IT Consultant to an undertaking with corresponding liability could not be enforced. Consequently, any reference to the undertakings or recommendation of the consultant may only be considered as information or knowledge given which carries no official or legal value or importance other than mere information. Having of no legal application therefore, the information supplied by the consultant should not have served as the official basis or reference of the BAC in awarding of the contract.

Therefore, the following issues need to be address by LWUA Management:

**1. On the recruitment and hiring of the IT Consultant -**

RA 9184 stipulates that the procuring agency shall undertake eligibility check, short listing of prospective bidders, bidding and evaluation of bids on the procurement of consultants. LWUA has to submit pertinent documents/justification on the BAC selection process and establishing the capability of the IT Consultant.

**2. On the authority of the IT Consultant to evaluate the submitted bid proposals and recommend the award of the contract in the amount of P223.8 million to the Bids and Awards Committee –**

There is no existing contractual relationship between the Consultant and LWUA as evidenced by the absence of a contract agreement. LWUA should provide the authority vested on IT consultant to undertake the bid evaluation and submit recommendation.

**3. On the basis of authority of the Bids and Award Committee (BAC) to “adapt” the recommendation of the professional IT Consultant as basis of the award of the WDGIS/DBM project to Secur Links Network and Technologies, Inc. –**

The employment of the consultant in the procurement process is not defined and its obligation in the process has not been established or accounted.

The services rendered by the IT Consultant without a contract agreement is deemed disadvantageous to LWUA because the IT Consultant cannot be held accountable and responsible in the event that misinformation and subsequent problems arises in the award of the contract and in the performance of the work by the contractor recommended by the IT Consultant.

We recommended that Management explain/clarify the issues noted taking into consideration the provisions of RA 9184 and NCC Memorandum Circular 2004-001 for our reference and guidance in audit.

Management has no written comments as of this date, however during the exit conference, Management informed that the contract between LWUA and the consultant is for notarization. In addition, the consultant is included in the list of NCC Information Technology consultants.

We maintain that at the time of audit, there was no contract between LWUA and the consultant. If indeed there was a contract, it should have been signed at the time the Board of Trustees under Board Resolution No.711 dated December 15, 2009 approved the direct hiring of the professional IT Consultant.

We also maintain that the hiring of consultants should be in accordance with the provision of RA 9184 on the hiring of consultants and not merely on the NCC list of consultants.

**16. LWUA risks losing its financial exposure of P58 million due to non-recoupment of the advances paid to contractors and consultants on various projects.**

The Procurement Law (RA 9184) states that advance payments shall be repaid by the contractor by deducting fifteen percent (15%) from his periodic progress payments.

The accounts Advances to Contractors and Advances to Consultants has an ending balance of P52.23 million and P25.97 million, respectively. Audit showed that some of the accounts have been dormant from five to twenty years already. Other findings shown below:

	Year end balance	Amount Dormant	Percent
Advances to Contractors	P52,231,578	P33,008,033	63
Advances to Consultants	25,971,098	25,971,098	100
Total	P78,202,676	P58,979,131	75

Notable among the advances were those granted to the following:

Advances to Contractors	
Titan Construction Corporation	P 15, 198,771.93
C.B.Garay Philwide Builders	10,756,997.75
New Sampaguita Builders Construction	2,095,667.54

Advances to Consultants	
BCEOM Societe Francaise	P 18,275,962.96
Nippon Joseguido Sekkei	7,453,641.60

The audit observation has been brought to the attention of Management in CY 2005 LWUA Annual Audit Report wherein we recommended that the consultants be required to liquidate their advances.

As to the advances to the contractors, we then recommended that Management pursue the claim against the surety bond of Titan Construction Corporation which has subsequently decided not to continue with their project after receiving said advances. Management commented then that the case of Titan Construction Corporation has been referred to the LWUA Legal Department for their appropriate action.

Management commented that in the case of Titan Construction Corporation, LWUA has submitted the claim to Cunningham Toplis Philippines, a GSIS accredited adjuster in May 18, 2006. For the advances to C.B. Garay Philwide Builders, the then Resident Engineer informed that the project is not yet terminated and that the final variation order will be prepared to close the account. The documents related to the New Sampaguita Builders Construction Account are no longer available and have been disposed.

As regards the advances to consultants, the Project Manager informed that there are still journal vouchers pending with the Internal Control Office for review. In so far as the consultants are concerned, they have liquidated the advances.

We recommended that Management:

1. Get in touch with the Cunningham Toplis Philippines to find out the reason for the delay of the claim.
2. Require the Project Engineer to immediately submit the final variation order documents in order to close the advances.
3. Determine persons responsible for the loss of the documents on the New Sampaguita Builders Construction account and for the unliquidated advances.
4. Determine the reasons for the delay in the processing of the journal vouchers and inform the persons concerned of the issues that need to be resolved regarding the documents submitted.

**17. LWUA's initial investment of P31.25 million in LWUA CONSULT, Inc. (LCI) was deemed disadvantageous to LWUA as the initial result of operation of LCI showed a net loss of P18.49 million. Moreover, LWUA no longer earn from Well Drilling activities as this was taken over by LCI.**

LWUA Management approved the creation of a subsidiary corporation, Water Technology Research and Development Center, Inc under its Board Resolution No. 152 dated June 30, 2009. Its corporate name was later changed to LWUA Consult, Inc. pursuant to Board Resolution No. 608 dated November 10, 2009.

Subsequently, LWUA Board Resolution No. 609 series of 2009 authorized the deposit of P31.25 million to Express Savings Bank Inc. corresponding to the initial paid up capital of LWUA for the incorporation of LWUA Consult, Inc.

We observed that the initial investment of P31.25 million in LWUA Consult, Inc. (LCI) was deemed disadvantageous to LWUA for the following reasons:

1. Accounting records showed that for CY 2010, LWUA did not earn any income from well drilling activities as LCI takes over the well drilling function. Data gathered disclosed that prior to the creation of LCI, LWUA earned considerable income from said activity as shown below:

Year	Income from well drilling (in pesos)
2010	0
2009	484,592
2008	4,340,785
2007	7,659,542.95
2006	28,238,967.01

2. The financial statements of LWUA Consult, Inc for CY 2010 showed a net loss of P18.49 million due to non-operating expenses, such as payment of extraordinary expenses and allowances to LWUA officers and employees assigned therein, in the total amount of P17.2 million.
3. The vision/mission and the primary purpose for which LCI was created under its Articles of Incorporation may not be achieved with only well drilling activities undertaken in CY 2010. Likewise, the necessity of its creation may be an issue considering that well drilling is a function of LWUA taken over by LCI after its incorporation.

While LWUA Consult, Inc. aims to specifically augment/complement LWUA in the latter's primary task of promoting and developing provincial water supply systems by providing specialized technical assistance to local water utilities and other water supply developers and providers, the result of its operation showed that its activities are limited to the same activities formerly being undertaken by LWUA, an indication that LCI is just an extension office or special project office of LWUA. Thus, the necessity of investing in a subsidiary may be an issue.

Management commented that the records of the Cost Accounting Division, Accounting Department showed that LWUA had been losing heavily on its well drilling activity after taking into consideration all the fixed and variable expenses.

They also explained that well drilling is just one of the activities of LWUA Consult, Inc. (LCI) and it is in stage of project development and might enter into bulk water supply project in joint venture with private investors which at best LWUA cannot undertake.

They also assured that they will be fine tuning LCI operation to make it a profitable business enterprise.

The audit team was informed during the exit conference that a case was filed at the Quezon City Regional Trial Court against the officials of LWUA for the creation of LCI.

We recommended that LWUA Management re-evaluate the necessity of investing in a subsidiary that performs the same function as that of its parent company and may continue being disadvantageous to LWUA.

**18. Actual expenses for Personal Services exceeded the DBM approved Corporate Operating Budget by P318.94 million contrary to Section 4(1) of PD 1445.**

Section 4(1) of PD 1445 provides the fundamental principle governing financial transactions and operations of any government agency, one of which states that "No money shall be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority."

LWUA submitted to the Department of Budget and Management (DBM) its Corporate Operating Budget for CY 2010 appropriating the amount of P748,027,000 for its Personal Services. However, only the amount of P 268,481,000 of the proposed budget was approved by DBM for the said pay item or a variance of P479,546,000.

Review of the LWUA Statement of Income for the year ended December 31, 2010 showed an actual expense for Personal Services of P587,422,951.38 or a variance of P318, 941,951.38 when compared with the DBM approved budget of P 268,481,000.

The excess of actual expenses over the DBM approved budget of P318,941,951.38 is accounted for as follows

EXPENSES	DBM Approved COB	ACTUAL	Savings (Excess Exp.)
Other Bonuses and Allowances			
Board Per Diem	192,000.00	134,000.00	58,000.00
13th Month Pay and Other Bonuses	28,708,000.00	196,906,859.09	(168,198,859.09)
Salaries and Wages - Regular	180,748,000.00	184,246,597.32	(3,498,597.32)
Additional Compensation			
Cost of Living Allowance	284,000.00	70,352,551.25	(70,068,551.25)
Amelioration Allowance	70,000.00	17,568,136.11	(17,498,136.11)
Meal Allowance	586,000.00	22,500,290.00	(21,914,290.00)
Children's Allowance	232,000.00	200,720.00	31,280.00
Other Personnel Benefits			
Executive Check-up		876,534.79	(876,534.79)
Hospitalization & Other Medical Benefits	1,180,000.00	12,091,323.98	(10,911,323.98)
Profound Contribution	93,000.00	23,206,126.49	(23,113,126.49)
P.E.R.A	14,328,000.00	14,154,520.52	173,479.48
Life & Retirement Insurance Contributions	21,690,000.00	19,275,025.08	2,414,974.92
Representation & Transportation Allowance	7,978,000.00	16,244,889.73	(8,266,889.73)
Clothing/Uniform Allowance	2,388,000.00	3,564,000.00	(1,176,000.00)
Philhealth Contributions	2,062,000.00	1,858,250.00	203,750.00
Terminal Leave Benefits		1,103,881.56	
Gratuity Pay	6,500,000.00	1,655,345.74	3,740,772.70
Pag-ibig Contributions	726,000.00	591,500.00	134,500.00
ECC Contributions	716,000.00	649,861.36	66,138.64
Honoraria		242,538.36	(242,538.36)
<b>T O T A L</b>	<b>268,481,000.00</b>	<b>587,422,951.38</b>	<b>(318,941,951.38)</b>

Not included in the Personal Services Account is the 2009 Economic Assistance in the amount of P34,143,000 granted to officers and employees pursuant to LWUA Board Resolution No. 114 dated March 9, 2010 without proper approval from the DBM. This was charged to prior year's adjustment account.

The reason for the overdraft was the disallowance by the DBM for lack of legal basis the benefits and allowances granted to LWUA officers and employees. The grant of said benefits in CY 2009 has been disallowed under various Notices of Disallowances issued by this Office.

LWUA in its appeal Memorandum mentioned, among others, the following arguments:

- RA 8041, otherwise known as the "National Water Crisis Act of 1995" which recognized the principle of non-diminution of pay and benefits of MWSS and LWUA personnel.
- They argued that the notice of disallowance was based on the DBM approval of the LWUA COB for CY 2009 that was lacking in specifics and that they were in quandary as to the foundation of the "no legal basis" finding by both the COA and DBM.
- They further argued that subject disallowance run counter to the clear mandate under RA 8041 and the intention of its framers to protect the employees of LWUA.
- That the second sentence of Section 12, RA No. 6758 does not qualify as to the source of benefit. It is enough that the benefit has been existing prior to the effectivity of RA 6758 and that it has not been included in the standardized salary rates. And that the continuous grant is limited to incumbents only to gear the compensation policy toward standardization without upsetting the principle of non-diminution of pay.
- Said allowances was authorized under LWUA Board Resolutions which corporate act was neither whimsical nor willful as it was based on legal premises. And that, even if the order is illegal, if it is patently legal and the subordinate is not aware of its illegality, the subordinate is not liable, for then there would only be a mistake of fact committed in good faith.
- There is no Supreme Court ruling yet that said allowances were without legal basis and prior to such jurisprudential pronouncement, the good faith of the LWUA officers and employees in receiving said benefits must be upheld.

Payment for subject benefits were disallowed for non-compliance with the conditions imposed under Section 7 of RA 8041 and Section 5 of EO 286, (National Water Crisis Act of 1995) specifically on the lack of final approval from the Office of the President. The DBM, being the alter ego of the Office of the President of the Philippines, has the authority to allow the grant of the allowances/benefits. Without such authority, the grant is without legal basis.

We reiterated our previous year's recommendation that LWUA should incur expenditures within the limits of the DBM approved budget and that the granting of personnel benefits

and the CY 2009 economic assistance 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.

The argument that the subject disallowance was based on the DBM approval of the LWUA COB for CY 2009 that was lacking in specifics and that they were in quandary as to the foundation of the “no legal basis” finding by both the COA and DBM is untenable. As previously stated, the DBM, being the alter ego of the Office of the President of the Philippines, has the authority to allowance the grant such allowances/benefits. Without such authority, the grant is without legal basis.

**19. Actual Extraordinary Miscellaneous Expenses (EME) and Miscellaneous Expenses for CY 2010 exceeded the DBM approved budget by P25.61 million and P4.38 million, respectively. Likewise, EME in the total amount of P26.1 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.**

For CY 2010, LWUA spent P26,164,732.61 for Extraordinary Miscellaneous Expenses and P4,812,384.15 for Miscellaneous Expenses while the DBM approved budget showed a total amount of P554,000 for Extraordinary Miscellaneous Expenses and P432,000.00 only for Miscellaneous Expenses showing a total over expenditure of P 29,991,116.76, as follows:

	Extraordinary Miscellaneous	Miscellaneous Expenses	Total
DBM-Approved Budget	₱ 554,000.00	₱ 432,000.00	₱ 986,000.00
Actual Expenses	26,164,732.61	4,812,384.15	30,977,116.76
Under/(over) expenditures	₱(25,610,732.61)	₱(4,380,384.15)	₱(29,991,116.76)

Likewise, analysis of the reimbursement for Extraordinary Miscellaneous Expenses revealed that LWUA officials still reimbursed their monthly extraordinary miscellaneous expense allocation at the beginning of the month without the required official receipts and/or other documents evidencing disbursements. Only a certification was attached to the claims attesting for the incurrence of the extraordinary miscellaneous expenses of P26,164,732.39. Of this amount, propriety of expenses could not be assessed as these were not properly documented.

In the CY 2009 LWUA Annual Audit Report, we indicated that pending COA Decision on the Petition for Review submitted by LWUA, the EME should be supported by official receipts as required under COA Circular No. 2006-001.

In addition, COA Corporate Government Sector (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, ruled that a certification issued by the official concerned for the purpose of claiming EME cannot be construed as “other documents evidencing disbursement”. The said CGS decision also stated that a certification is not of the same class as a 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.

Meanwhile, reimbursement for Miscellaneous Expenses incurred by LWUA officials totaled ₱4,812,384.15. Further examination of reimbursement for Miscellaneous Expenses revealed the following audit observations:

1. Various reimbursements of official receipts from miscellaneous expenses include expenses for expensive gift items, flower arrangements and similar expenses which may be considered questionable unless properly justified.
2. Out of the total reported miscellaneous expenses, we noted that many were spent for meals during Saturdays, Sundays and Holidays.
3. Reimbursement for various meeting expenses was supported with official receipts but were for take-out and food delivery of breakfast meals usually good for one (1) to two (2) person only .
4. Official receipts for KTV Bars was also included in the reimbursement for miscellaneous expenses.
5. Also included in the reimbursement of miscellaneous expenses for various meetings were official receipts for the purchase of wines and other alcoholic beverages which are considered excessive and extravagant expenditures.
6. There were also expenses reimbursed under the miscellaneous expenses that should have been appropriately categorized under regular budget allocation of LWUA, such as payment for PLDT, hotel accommodations, purchase of office and computer supplies, matured A/R Bonds, cost of check booklets, purchase of wind breaker jackets, and Balikbayan magazines.
7. Similarly, payments for honorarium for the valuation of LWUA artworks in the total amount of P60,000 is properly chargeable to other services expense.

We reiterate our prior year's audit recommendations that Management should :

1. Limit the reimbursement of extraordinary and miscellaneous expenses within the approved amount of each Department/Official in the DBM-approved Corporate Operating Budget.
2. 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 the disbursement.

3. Categorize miscellaneous expenses within the contemplation of Section II of COA Circular No. 2006-001
4. Make the necessary adjustment to reclassify the proper charging of miscellaneous expenses accounts.

Management commented that they firmly maintain that the certifications, albeit not being official receipts, nevertheless fall within the context of “documents evidencing disbursements” and that COA Circular 2001-01 (?) failed to specifically state that certifications are no longer acceptable to support the claims, hence, must still be considered as allowed that said circular is violative of equal protection clause of the 1987 Philippine Constitution.

It was also their position that the CGS Cluster B Decision No. 2010-003 dated April 13, 2010 is not consistent with how COA treats the claims for reimbursements of extraordinary expenses of National Government agency officials and requiring such receipts is an interpretation beyond the mandate of the circular.

We stand by our audit recommendation that pending COA Decision on the Petition for Review submitted by LWUA, the EME should be supported by official receipts as required under COA Circular No. 2006-001.

Management took note of the recommendations on the reimbursement of miscellaneous expenses.

**20. LWUA continued the grant of Executive Check- Up and Hospitalization benefits to LWUA Board of Trustees and officials and employees amounting to P4.913 million for CY 2010 despite the disapproval from the Department of Budget and Management (DBM) and COA’s recommendation to discontinue the grant if no approval was secured from DBM.**

In the CY 2009 Annual Audit Report, we recommended that LWUA should seek the approval of the DBM for the granting of Executive Check- Up to LWUA Board of Trustees and officials and employees and to discontinue the reimbursement of said benefits if no approval was secured from said Office.

The DBM approved Corporate Operating Budget of LWUA for CY 2010 showed that the budget for executive check up in the amount of P2,850,000 was disapproved as there is no legal basis for such benefit. Meanwhile, the budget for medical benefits has an over provision of P10,977,000 since only 472 incumbents as of June 30, 1989 was allowed to be given P2,500 per year.

Despite the disapproval from the DBM, Management continue to grant reimbursement of actual hospital medical expenses charged to Executive Check up and Hospitalization and other medical benefits accounts which amounted to P876,534.79 and P4,036,323.98, respectively, or a total amount of P4,912,858.77 during the year.

Management informed that the Executive Medical Program was first implemented in LWUA under Board Resolution No. 15 series of 1977, dated February 9, 1977 and continued up to the present. The grant of said benefit was also supported by the directive of the Civil Service Commission under MC No. 17, s. 1989. Thus, to discontinue said benefit is contrary to the principle of non-diminution of pay and benefits which has been applied by

the Supreme Court in numerous cases before it and in Section 5 of the National Water Crisis Act of 1995 and Section 7 of RA 8041.

With respect to the grant of said benefit to those hired after June 30, 1989, Management cited the Supreme Court decision in Irene V. Cruz, et.al vs. COA (GR No. 134740, October 23, 2001) that the classification of COA as to who were entitled to the benefits and excluding therefrom those employees hired after October 31, 1989 has no legal basis. It was held that the date of hiring of an employee could not be considered a substantial distinction.

It is emphasized that the DBM disallowed the grant of said benefit in the Corporate Operating Budget for lack of legal basis.

We reiterated our previous year's recommendation to discontinue the reimbursement of executive check up and hospitalization benefits to LWUA Board of Trustees and officials and employees if no approval was secured from the Department of Budget and Management (DBM).

**21. Outstanding cash advances of P4.38 million remain unliquidated although the purpose for which these were granted had already been served contrary to the provisions of Section 89 of PD 1445 and COA Circular No. 97-002 dated February 10, 1997.**

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.

COA Circular No. 97-002 provides for the specific time frame for the liquidation of cash advances; to wit:

- a. Maintenance and Other operating expenses – as the purpose for which it was given has been served.
- b. Official Travel – within sixty (60) days after return to the Philippines in case of foreign travel or within thirty (30) days after return to his permanent official station in the case of local travel.

The Cash Special Disbursing Officer account as of December 31, 2010 amounted to P11,092,988.87 of which P4,383,688.09, remain outstanding even if the purpose for which it was granted has been served.

Analysis showed the following observations:

- a. There were cash advances for well drilling projects in the amount of P2,668,566.32 which remain unliquidated even if the projects have been completed;
- b. A cash advance granted to defray expenses for the LWUA Anniversary in September 2009 in the amount of P1,369,394.74 remained outstanding;
- c. An employee who retired September 18, 2009 was granted clearance despite having an outstanding cash advance of P156,047.76;

- d. Other cash advances granted for specific purpose in the amount of P189,679.27 remain outstanding even if the purposes which they were granted have long been served

Demand letters have been sent to accountable officers with outstanding balance of more than P50,000. As of to date, we have not received any reply nor information if documents have been submitted for liquidation.

The non-liquidation of the cash advances would affect the Other Current Asset Account and the respective expense account and ultimately the Retained Earnings Account.

We recommended that Management require the Accountable Officers to settle immediately the outstanding cash advances. Failure of the accountable officers to liquidate his cash advance within the prescribed period shall constitute a valid cause for the withholding of his salary or claims from LWUA as provided under COA Circular 97-002.

Management promised during the exit conference that they will submit additional documents for the liquidation of outstanding cash advances.

**22. Lawyers of the Office of the Government Corporate Counsel (OGCC) were paid honorarium in the total amount of P391,000 without any indication that the three conditions for the grant of allowance exists as provided for under Executive Order No. 878 dated March 4, 1983.**

Section 6 of Executive Order No. 878 states that:

“When the exigency of the service so requires, any member of the legal staff of the OGCC may be assigned or designated in a concurrent capacity to act as corporate officer of the government-owned or controlled corporations being serviced by the OGCC, provided the Government Corporate Counsel (GCC) approves the assignment or designation. Whenever any member of the legal staff of the OGCC is assigned/designated to perform additional or special tasks in any of the client corporations, he is allowed to receive such additional compensation and privileges as may be granted them by the government corporations concerned.”

In COA Decision No. 94-040 dated February 1, 1994 it has been decided that for proper grant of allowances, there must be three concurring conditions as follows:

- When the exigency of the service so require;
- That the OGCC approves the assignment or designation; and
- The OGCC lawyers are assigned and/or designated to perform additional or special task in any of the client corporation.

It further stated that:

“ Here, even if OGCC lawyers are assigned to perform additional task in any of the client corporations, they are not entitled to additional compensation if the exigency of the service does not so require, that is, the additional task can be satisfactorily accomplished by regular employees or lawyers of the client

corporation. The same is true if such exigency ceases to exist. Conversely, even if the exigency of the service so requires, still OGCC lawyers are not entitled to additional compensation and privileges if the tasks they are performing are not special or additional tasks. In other words, they are not entitled thereto if they are performing regular functions.

It is, therefore, necessary to determine the regular function of the OGCC.

OGCC is precisely tasked to be the principal law office of the GOCCs and must be responsive to the legal assistance needed by these client corporations. (PD 1415; Section 10 Ch.3, Title III, Bk. IV E.O. 292) Without these client government corporations, OGCC has no task to perform, no functions to exercise, no reason to justify the grant of salaries and allowances to its lawyers not only from GOCCs but also from OGCC itself. Certainly, the rendition of legal assistance, in any form, to these GOCCs cannot be taken out of the ambit of the regular functions of the OGCC.”

The OGCC lawyers were paid monthly honorarium ranging from P5,000 to P7,000 or a total of P391,000 during the year. The disbursement was solely based on the memo brief from the LWUA Corporate Legal Counsel and Board Secretary requesting the preparation of check voucher for the payment of honorarium directly to the OGCC lawyers who rendered contract review, opinions and other forms of legal services to LWUA. The supporting documents failed to establish that the OGCC lawyers are assigned to perform additional or special task in LWUA.

We recommended that Management should submit evidence to support the existence of the three concurring conditions for the grant of allowances. Otherwise, the payment of said allowance should be discontinued.

The OGCC submitted copies of the official designation of the OGCC lawyers as In-house/Detailed Counsels of LWUA. They also informed that the OGCC lawyers receiving honorarium at LWUA were designated by the Government Corporate Counsel as members of the Water and Environment Team handling LWUA’s legal concerns such as, among others, attendance in court hearings in Quezon City and in any part of the country where LWUA is a party to a case and render legal services that are normally not considered part of their legal work.

However, we noted that it was the OGCC lawyers, instead of LWUA being the client corporation, who submitted the list of the additional task/services performed by OGCC lawyers and thus considered self serving information. The proof/evidence required to support the existence of the three concurring conditions for the grant of allowances should come from LWUA.

Management submitted the required LWUA attestation on the need for the services of OGCC lawyers.

We recommended that henceforth, all payments should be duly supported with proof/evidence to support the existence of the three concurring conditions for the grant of allowances.

- 23. The payments made to the concerned Water Districts for the maturity/termination of their Investment in the LWUA Water District Deposit Portfolio Fund in the amount of P15.6 million were not in accordance with the repayment condition stated in the Certificate of Deposit which requires the return of its properly endorsed original copy to LWUA.**

Article V, Section 8 of the Financial Assistance Contract, executed by and between LWUA and the Water District, provides that for the purpose of insuring repayments of its obligations, and providing for the continuous viability and growth of the borrower (Water District), the borrower commits to develop and maintain reserve funds and deposit its reserve funds with LWUA under a LWUA Water District Portfolio Account.

The Water Districts' investments in the LWUA Water District Deposit Portfolio Fund are recorded as Depository Liabilities in the LWUA books of accounts. Upon receipt of the fund, a Certificate of Deposit is issued duly signed by the Acting Deputy Administrator, Investment & Financial Services and the Administrator of LWUA. The Certificate shows the validity date, the amount, the due date, the interest rate per annum and it also states that the deposit is repayable to the water district on due date upon the return of the certificate properly endorsed.

The Portfolio Fund balance at the end of the year amounted to P 148,448,587.97. The total amount of investments terminated was P 15,603,747.31 consisting of payments to the following Water Districts:

<b>Check No</b>	<b>DATE</b>	<b>PAYEE</b>	<b>AMOUNT</b>
406301	May 4, 2010	Pili WD	P4,000,000.00
427374	Aug 12, 2010	Kabacan WD	1,000,000.00
427806	Sept 13,2010	Metro Kalibo WD	6,757,262.05
431542	Nov 5, 2010	Isabela WD	583,466.40
431913	Dec 2, 2010	Alaminos WD	1,209,018.85
432068	Dec 10, 2010	Tabaco WD	2,054,000.01
<b>TOTAL</b>			<b>P15,603,747.31</b>

Verification of the payments revealed that the original copies of the properly endorsed Certificate of Deposits were not attached to the vouchers. We were informed that the said certificates were not returned by the Water Districts.

Without the original copy of the document, the accuracy and validity of the transactions pertaining to the termination/withdrawal of deposits cannot be ascertained.

We recommended that Management instruct the Cash Management Division to comply with the condition in the Certificate of Deposits requiring the Water Districts to surrender the properly endorsed original copy upon the termination/withdrawals of their investment.

Management informed that the return of Certificate of deposits is strictly required from the WD together with other documents. The original copy of the certificate is kept in the Water Districts' individual folder and form part of their file.

If there is any deviation, it was just an accommodation and meant not to delay the supposed delivery of good service to our partners, the WD Investors. Management

submitted authenticated photo copies of the original certificate of deposit of the water district with terminated accounts.

We, however, noted that the photo copies of the certificate of deposit were not properly endorsed as required in the repayment condition.

Management promised during the exit conference to furnish the Audit Team with photo copies of the duly endorsed certificate of deposit.

**24. Travel expenses in the amount of P10 million were not supported by certificate of appearance signed by authorized officials of the agency visited by the LWUA official/employees.**

This is a reiteration of an audit observation incorporated in the CY 2008 Annual Audit Report.

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

“ e. Certificate of appearance or a copy of the report on the accomplishments of the purpose of the travel duly noted by the agency head or his authorized representative. Xxx”

The above provision treats separately the preparation of Certificate of Travel Completed and that of the Certificate of Appearance. The latter is an attachment to the Certificate of Travel Completed.

Examination of the travel expenses incurred by the officials and employees of LWUA in the total amount of P10,288,689.30 showed that the Certificate of Travel Completed and the Certificate of Appearance was combined into one document as Certificate of Travel Completion and Appearance.

The traveler certifies that he personally appeared in the place/s and date/s indicated therein; that the purpose of the travel has been served accordingly and that the statement is made in lieu of the Certificate of Appearance required under Section 11.1.2 of DBM-COA Circular 86-1 dated November 12, 1986.

The statement that the official/employee personally appeared in the place/s and date/s indicated in the Certificate of Travel Completion and Appearance is considered self-serving. The veracity that the travel was actually undertaken is not certain since the Certificate of Appearance was not signed by the authorized officials of the agencies visited by the official/employees who went on travel.

We reiterated our recommendation in CY 2008 Annual Audit Report that all liquidation of cash advances or claim for reimbursement of travel expenses should be supported by a Certificate of Appearance signed by the authorized official of the office visited by the LWUA employee or a copy of the report on the accomplishments of the purpose of the travel duly noted by the agency head or his authorized representative as required under COA Circular No. 96-004.

Management requested that LWUA's personnel's Report of Travel Completion be considered compliance of the requirement of a copy of the report on the accomplishment of the purpose of the travel.

We found the content of the report on the accomplishment required under Section 3.1.2.2 (e) of COA Circular No. 96-004 dated April 19, 1996 different from the Certificate of Travel Completion and Appearance submitted by LWUA officers and employees. The report of accomplishment is the report of work done in connection with the travel by the concerned officers or employees duly noted by the agency head or his authorized representative. The Certificate of Travel Completion and Appearance by LWUA merely contains a certification that the LWUA personnel personally appeared in the place/s and date/s indicated therein and that the purpose has been served accordingly. Thus, the report of Travel Completion and Appearance cannot replace the requirement of a copy of the report of accomplishment.

**25. Public Information Expense of at least P2 million spent by LWUA in CY 2010 were contrary to the provisions of COA Circular No.85-55A on the prevention of Irregular, Unnecessary, Excessive or Extravagant Expenditures on uses of Government Funds and Property.**

On February 17, 2010, LWUA's accomplishment reports highlighting its exemplary show of good governance and to celebrate LWUA's anniversary were published and advertised in various print media. However, such advertisements were deemed unnecessary as contemplated under COA Circular 85-55A. The circular further provides that expenses for advertisements of anniversaries, etc. in newspaper, TV, or radio merely for publicity or propaganda purposes are unnecessary except when the nature of the agency's mission would require such expenses as in the case of promotion of trade or business.

In addition, one of the austerity measures adopted under Administrative Order No. 103 dated August 31, 2004, directing the continued adoption of austerity measures in the government is the suspension, among others, of paid media advertisements except those required in the issuance of agency guidelines, rules and regulations, the conduct of public bidding and the dissemination of important public announcements.

LWUA Accomplishment Report for CY 2009 was published in leading newspapers for a cost of P1,194,325.44 and the Special Cover Feature featuring LWUA in the Philippine Free Press newspaper for a cost of P250,000.00.

Moreover, it was also noted that LWUA sponsored the cost of production and airtime of the Philippine Women's Basketball League (PWBL) on Solar Basketball TV for P500,000.00. It was explained that the media mileage offered by sponsoring the 1st season of the PWBL is reasonable compared to the current cost of outdoor media advertising.

However, TV advertisements for publicity or propaganda are considered unnecessary as the nature of the LWUA's mission would not warrant such expenses. Succeeding transactions expenses like birthday gifts to media people, donations/financial assistance during a golf tournament, purchase, supply and delivery of 623 pcs. Christmas hams in the amount of P289,695.00 for LWUA employees are properly chargeable to Miscellaneous Expense of the agency.

We recommended that LWUA should adhere strictly to the provisions of COA Circular No. 85-55A aimed at preventing unnecessary, excessive and extravagant expenses. LWUA

should monitor and control the Public Information Expenses to be incurred in order to minimize, if not prevent wasteful, excessive and unnecessary expenses.

Management informed that the publication of LWUA accomplishment report in leading newspapers were done in compliance with the then directive from the Office of the Press Secretary exhorting all government agencies to come up with such accomplishment reports. More than mere publicity or propaganda, these were meant to highlight LWUA's vital role in the water supply sector in their pursuit to allow local government officials make a more informed choice as to whether or not they would adopt the LWUA water district approach to their water supply concerns.

The sponsorship in the Philippine Women's Basketball League (PWBL) was to the advantage of LWUA and was in support of the government's program for youth, sports and physical fitness development.

They will also monitor and control future public information expense to strictly adhere to COA Circular No. 85-55A and to be in full conformity with the austerity cost saving measures of the government.

**26. Disbursements for financial assistance to Water Districts in the amount of P293 million were supported by Acknowledgement Receipts instead of Official Receipts as required under COA Circular 2004-006. Likewise, the failure of the Water Districts to issue Official Receipts as proof of receipt of fund is not in accordance with Section of 68 of PD 1445.**

COA Circular 2004-006 dated September 9, 2004, which prescribed the guidelines and principles on the acceptability of the evidence of receipt of payment for disbursements, states that the general objective of examining the evidence of receipt of payment is to establish that the funds disbursed have actually been received by the payee.

Section 3.3 thereof provides that the evidence of payment may be a paper-based document or an electronic document. A paper-based evidence of receipt of payment may be in the form, among others, of an Acknowledgement Receipt. The specific provision quoted as follows:

3.3.1 (c). Acknowledgement Receipt (AR) – The AR shall be acceptable for disbursements made from the cash advance of the disbursing official where the payee is not a business entity required by the Bureau of Internal Revenue to issue ORs. It may be printed, typewritten or handwritten and must bear the signature of the payee.”

Examination of the sample payments of the financial assistance granted to the Water Districts revealed that disbursements in the total amount of P293,578,125.70 were not supported with Official Receipts. Instead, payments in the amount of P146,739,209.14 received by the Water Districts were supported by Acknowledgement Receipts signed by the respective General Managers or signed by the person authorized by the Area Manager of LWUA to receive the check payment. Meanwhile, there were also disbursements to Water Districts amounting to P146,838,916.56 supported by Acknowledgement Receipt and also deposit slip as proof of deposit to the account of LWUA and the Water District Joint Account.

Considering that the recipient Water Districts are government corporations they are by law required to issue Official Receipts upon receipt of funds as provided for under Section 68 of PD 1445, quoted hereunder:

“ Section 68. Issuance of official receipt. - (1) No payment of any nature shall be received by a collecting officer without immediately issuing an official receipt in acknowledgement thereof. X x x”

Without the official receipts being required by LWUA in the release of the financial assistance to the Water Districts, there is the risk that the funds disbursed may not be actually received by the payee and were not properly accounted for.

We recommended that Management require the Water Districts to issue Official Receipts for the amount released to them and that henceforth, only Official Receipts issued by the Water Districts should be accepted as evidence of receipt of payment in compliance with COA Circular 2004-006 and Section 68 of PD 1445.

Management partially complied by submitting official receipt issued by the water district for financial assistance in total amount P130,990,328.19. The General Manager of the following Water Districts issued certification that they receive the fund in lieu of official receipt, to wit:

	Amount
1. San Rafael Water District	P 5,500,000.00
2. Sto Tomas Water District	7,235,450.00
3. Cuatero Water District	6,311,098.31
4. Dao Water District	6,732,189.54
5. Dumalneg Water District	*25,880,638.27
6. Luba Water District	8,683,917.12
7. Bangui Water District	6,928,750.00
8. Sta Praxedes Water District	5,240,494.00
9. Lasam Water District	9,254,602.00
10. Dasol Water District	1,444,000.00
11. San Rafael Water District	5,500,000.00
Total	P88,711,139.24

\*Total for three separate fund releases

Management informed that for payments supported by Acknowledgement Receipts signed by the LWUA Resident Engineers authorized by the Area Manager to receive the check payment, they have exerted efforts to make series of follow-ups for them to submit the required Official Receipts to be issued by the recipient Water Districts but to no avail. To prevent voluminous documents that might pile up in their custody, they were forced to transmit the documents for post-audit even without the evidences of payment.

Some of the recipient Water Districts which issued Acknowledgement Receipts in lieu of Official Receipts, claimed that they are newly formed Water Districts, hence the required Official Receipts for the payment were not yet available at the time they received the checks Nevertheless, they will be sending letters to these Water Districts and require them to issue the Official Receipts.

We found the certification issued by the General Managers of the Water District not acceptable in audit since it is not in accordance with COA Circular 2004-006 and Section 68 of PD 1445.

We reiterated our recommendation that Management require all Water Districts (whether newly created or not) to issue Official Receipts for the amount released to them.

**27. The accuracy, propriety and validity of the Payables – Unliquidated Obligations in the amount of P29.9 million could not be ascertained in the absence of supporting documents and runs counter with the provisions of existing laws, rules and regulations.**

Section 4 (6) of PD 1445 provides that claims against government funds shall be supported with complete documentation.

Analysis of the Payables – Unliquidated Obligations account revealed that expenditures amounting to P 29.9 million were not supported with documents. These consist of claims for the following:

Payees	Nature	Amount
Various employees	Cost of living allowance	P22,892,752.15
Various employees	Hospitalization and medical benefits	3,824,218.75
Various employees	Travel - local	1,989,730.92
Various employees	Executive check up	680,000.00
Various employees	Other Miscellaneous expenses	555,000.00
Total		P29,941,701.82

The absence of documents to prove that the obligations were valid, proper and accurate and complies with government laws, rules and regulations rendered the account doubtful and contrary to the provision of Section 4(6) of PD 1445. This may also result in the overstatement of the payable account and the related expense account.

We recommended that Management strictly comply with the provision of Section 4(6) of PD 1445 on the complete documentation of payables recorded in the books. Only those fully supported claims should be recognized as valid obligations and that the documents supporting thereto should be attached to the journal vouchers for recording in the books of accounts.

**28. LWUA through its GAD Focal Point was able to continuously undertake activities for Gender Mainstreaming that resulted in improved level of GAD awareness not only at LWUA but also at the Water District level although the allocated fund does not represent the fund requirement of at least five (5)% of the total budget for CY 2010.**

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 5% of their total budget appropriations.

LWUA's Corporate Operating Budget (COB) for Calendar Year 2010 as approved by the Department of Budget and Management (DBM) amounted to **P366,197,000.00** thus, it is mandated to allocate at least **P18.3 million** for GAD plans and programs.

Review of LWUA's COB for CY 2010 disclosed that the approved budget for GAD Administered Programs included under Outside Training and Seminars Account was

**P1,800,000.** The amount represents 9% only of P18,309,850, the total mandated allocation for GAD plans / programs of LWUA.

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

GAD Accomplishment Report for calendar year 2010 revealed that LWUA had successfully undertaken GAD activities to sustain and improve its level of awareness on Gender and Development not only at LWUA but also at several Water Districts by performing the following:

- Appreciation Session for Field Managers and Advisors with resource speaker from NCRFW.
- Production of quarterly GAD Magazine called “GAD Speaks”
- Seminar on Magna Carta for Women and Violence Against Women and their Children with resource speaker from NCRFW
- Conduct of continuing Gender Sensitivity Trainings
- Attendance to ILO-PCW sponsored facilitator’s training on Participatory Gender Audit
- Coordination/visit with briefings/orientation/exposure trip to LGU-WD GAD environmental projects.

In line with gender and development mainstreaming activity at the water district area, LWUA GAD Focal Point has come up with a project in partnership with the Public Affairs Department entitled “Kilusang Ugnay sa Tubig” or “Kilusan” for short. “Kilusan” is a community movement for hygiene, sanitation and water conservation initiated by the LWUA GAD Focal Point with barangay leaders as the target participants. “Kilusan” hopes to empower the barangay leaders of their vital roles in nation-building that will result to a multiplier effect to influence the community in the practice of proper hygiene, sanitation and water conservation. The Public Affairs Department has a similar program, “Buhay Kyut Program” which caters to school children. KYUT stands for Kalusugan, Yamang Ugnay sa Tubig. “Kilusan” aims to:

- Create awareness among the barangay leaders on their vital role in nation building particularly in the areas of hygiene, sanitation and water conservation
- Educate and inculcate on the participants the best practices of hygiene, sanitation and water conservation
- Sustain the movement by involving the water district in the area and giving them the lead role in the “Kilusan”
- Help the water district come up with a sustainable assistance program for the marginalized barangays related to hygiene, sanitation and water conservation.

The pilot implementation of the “Kilusan” which was approved on July 7, 2010 will be a marginalized barangay of a Water District.

We commended the LWUA GAD Focal Point for undertaking activities for Gender Mainstream despite allocation of minimal fund requirements. It is therefore recommended that GAD Focal Point should initiate the increase in the budget for GAD administered program subject to availability of cash to continue its implementation.

Management took note of the recommendation and assured that they will gladly consider increasing the Gender Development budget at at least 5% of the total appropriations for the succeeding years. However, for CYs 2011 and 2012, they would abide by the budgets of P6.4 million because the same have already been approved and also to conform to call for austerity which is a significant improvement over the P1.8 million budget in CY 2010.

**29. Status of audit suspensions, disallowances and charges as of December 31, 2010**

Total audit disallowances found in the audit of various transactions of the LWUA, as of December 31, 2010, amounted to **P137,460,931.71**, based on the Notice of Disallowances issued. There were no Notice of Suspension and Notice of Charge issued as of December 31, 2010.

From March 18, 2004 to July 22, 2009, prior to the effectivity of the RRSA, COA records disclosed that several transactions totalling to P81,925,063 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.

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Audit Findings	Recommendations	Remarks
<b>COMPLIANCE AUDIT</b>		
1. Miscellaneous Receivables arising from claims from the government of the Phils. amounting to P1.254 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 represent 40% of the P3.166 billion net realizable value of receivables as of December 31, 2009.	In the event that 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. It is recommended, therefore, that corresponding adjustments be made in the LWUA's books of accounts.	Not Implemented See Finding No. 3
2. The purchase of the 60% common shares of Express Savings Bank Inc. (ESBI) for P80M and the payment of P400M 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. Moreover, the required approval for the quasi-banking authority of ESBI is still pending with the Monetary Board of BSP.	Management should 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 is also recommended that the approval of the Monetary Board be immediately secured for ESBI to engage in a quasi-banking function.  Return of the initial investments of P80M and P400M additional infusion of capital with the ESBI pending the approval of the BSP/SEC/OP.	Not Implemented See Finding No.10
3.3.1 Non-realization of the proposed and the DBM approved corporate and other income resulted in bigger government subsidies and borrowings.  3.2 Actual Expenditures for Personal Services and Maintenance and Other Operating Expenses exceeding the DBM-approved Corporate Operating	Management to exert more effort to realize both income and other sources of receipts.  LWUA should incur expenditures within the limits of the DBM-approved budget.	Not Implemented See Finding No. 18

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<b>Audit Findings</b>	<b>Recommendations</b>	<b>Remarks</b>
<p>Budget of LWUA for CY 2009 by at least P370.48 million</p>	<p>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.</p> <p>In the absence of the legal basis and proper authorization for the payment of additional personnel benefits, it is 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.</p>	
<p>4. Actual Extraordinary and Miscellaneous Expenses for CY 2009 was in excess of the 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</p>	<p>Management should adopt the following remedial measures:</p> <ol style="list-style-type: none"> <li>1. Limit the reimbursement of extraordinary and miscellaneous expenses within the approved amount of each Department/Official.</li> <li>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</li> </ol>	<p>Not Implemented See Finding No. 19</p>

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<b>Audit Findings</b>	<b>Recommendations</b>	<b>Remarks</b>
	<p>extraordinary expenses and supporting the claims with receipts and/or other documents evidencing disbursements.</p> <p>3. Categorized miscellaneous expenses within the contemplation of COA Circular No. 2006-001 Section 11</p> <p>4. Make the necessary adjustment to reclassify the proper charging of miscellaneous expenses accounts.</p>	
<p>5. Actual expenses in the total amount of P2.4 million for Executive Check-up of the LWUA Board of Trustees and other LWUA Officials and Employees has no legal basis or approval from the Office of the President of the Phils./Secretary of Budget and Management</p>	<p>Management should seek the approval of the 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.</p>	<p>Not Implemented See Finding No. 20</p>
<p>6. RATA 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 198.</p>	<p>The granting of said RATA be discontinued effective immediately.</p>	<p>Implemented Notice of Disallowance No. 09-001-CF-(10) dated October 14, 2010 for P1.19 million was issued.</p>
<p>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.</p>	<p>The following remedial measures are recommended: 1. Ensure proper liquidation of all advances in accordance with the rules and regulations</p>	<p>Not complied See Finding No. 7</p>

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<b>Audit Findings</b>	<b>Recommendations</b>	<b>Remarks</b>
	<p>prescribed under COA Circular No. 97-002</p> <p>2. Exert effort to require the concerned water district to liquidate their respective advances.</p> <p>3. Facilitate the immediately processing of liquidation vouchers submitted by the concerned water districts in order to update their accountability.</p>	
<b>FINANCIAL AUDIT</b>		
<p>8.The reported balance of Cash in Bank-Local Currency, Current and Savings Deposit accounts were understated by P205 million mainly due to outstanding checks as of year-end.</p>	<p>Management should make the necessary reconciliation of the recorded Cash-in-Bank, Local Currency account with the bank balances as of December 31, 2009 to properly account and report the correct cash in bank.</p>	<p>Not complied See Finding No.6</p>
<p>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.</p>	<p>The following remedial measures are recommended:</p> <p>1. Reconcile accounting records with the records of the Disbursing Officer</p> <p>2. 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.</p> <p>3. Ensure that the proper liquidation of all payroll fund releases are in accordance with the rules and regulations</p>	<p>Not Implemented See Finding No.9</p>

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<b>Audit Findings</b>	<b>Recommendations</b>	<b>Remarks</b>
	prescribed under COA Circular No. 97-002; and 4. 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 (AOM's) were issued to inform management of the observations noted and to recommend various adjustments or reclassifications to reflect the correct amount of the accounts.	Implemented
<b>GENDER and DEVELOPMENT</b>		
11.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.	Management 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.	Partially Implemented See Finding No.28