

Local Water Utilities Administration
ANNUAL AUDIT REPORT for CY 2011

EXECUTIVE SUMMARY

Introduction

The Local Water Utilities Administration (LWUA) or the Company is a government-owned and controlled corporation (GOCC) with a specialized lending function mandated by law to promote and oversee the development of water supply systems in provincial cities and municipalities outside of Metropolitan Manila. It holds its office in its own building at the MWSS-LWUA compound located at Balara, Quezon City. Presidential Decree (PD) No. 198 dated May 25, 1973 (as amended by PD Nos. 768 and 1479), otherwise known as the Provincial Water Utilities Act of 1973, created 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 its mandate is to provide a composite of financial, technical and institutional development and regulatory services to water utilities. In 1987, LWUA's mission and area of responsibility were expanded to include provision of Level II service (communal faucet system) through the Rural Waterworks and Sanitation Associations (RWSAs) in areas where Level III systems (individual household connection) were not feasible. Some of the major functions of LWUA include the following:

- a. To prescribe 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;
- b. To furnish technical assistance for personnel training program for local water utilities;
- c. To monitor and evaluate local water standards; and
- d. To effect systems integration, joint investment and operations, district annexation and de-annexation whenever economically warranted.

Financial Profile

The Financial Position and the Results of Operations of LWUA for the period ended, December 31, 2011, with comparative figures for CY 2010, are presented below:

Financial Position

	2011	As restated 2010	Increase (Decrease)
Assets	15,948,969,052	17,338,364,859	(1,389,395,807)
Liabilities	10,454,810,622	11,241,502,693	(786,692,071)
Equity	5,494,158,430	6,096,862,166	(602,703,736)

Results of Operations

	2011	2010	Increase (Decrease)
Operating Income	1,235,665,464	1,720,227,131	(484,561,667)
Operating Expenses	2,467,602,358	1,388,485,560	1,079,116,798
Net Income (loss) from Operation	(1,231,936,894)	331,741,571	(1,563,678,465)
Other Income/ (charges)	(129,519,967)	3,423,972	(132,943,939)
Income tax – current	(13,663,435)	(155,520,248)	141,856,813
Deferred tax	422,985,272	56,574,519	366,410,753
Net Loss	(952,135,024)	236,219,814	(1,188,354,838)

Scope of Audit

The audit covered the examination on a test basis of the account and financial transactions and operation of LWUA for the period January 1 to December 31, 2011 in accordance with Philippine Standards on Auditing. The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of LWUA to prescribed laws, rules and regulations.

Auditor's Opinion

The Auditor rendered a disclaimer of opinion on the fairness of presentation of the Financial Statements of the LWUA for the following reasons:

1. The Notes to the Financial Statements stated that the Company has an ongoing clean – up activities of its books which resulted to certain adjustments in the financial statements. The Company still expects adjustments on certain items as the clean-up activities continue. The restated figures for 2010 are still subject for validation.
2. Note 1 of the Notes to Financial Statements stated that the accompanying financial statements of LWUA for the year ended December 31, 2011 are still subject for further review and validation of certain transactions, balances and possible adjustments as stated/detailed in Note 3.
3. The new Board of Trustees upon assumption to Office in June 2011 immediately directed a clean-up of LWUA'S books to reflect its true financial condition and performance. The clean-up activities have not yet been completed as of December 31, 2011 and are still on-going as at audit report date. Many issues have been identified and addressed, several issues required possible adjustments in the financial statements, others required policy changes and reforms and systems improvement.

Because of the significance of the matters discussed above, we have not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion.

Summary of Audit Observations and Recommendations

Below is a summary of audit observations and recommendations which are discussed in detail in Part II A of the Report.

1. Of the six individual loan accounts with three foreign lending banks under *Loans Payable – Foreign* account with year-end balance of P4,622.776 million per LWUA records, four loan accounts posted variance against the confirmed balances of the foreign lending institutions, with the latter higher by P132.271 million.

Similarly, of the ten loan accounts with five foreign lending institutions under LWUA's *Loans Payable - GOP* with year-end balance of P1.832 billion, three loan accounts differed from the confirmed balances of the foreign lending institutions, with the latter by P58.641 million.

No reconciliation of loan balances between the LWUA records and the records of foreign lending institutions had been vigorously pursued since the setting up of loans by LWUA.

We recommended and Management agreed that the Accounting Division reconcile the noted variance / difference between the recorded balances of Loans Payable Foreign and Loans Payable GOP against the amount confirmed by the Foreign Lending Institutions to reflect the correct balances of these loan accounts.

We also recommend that Management coordinate with the foreign lending institutions for the immediate reconciliation of their loan accounts with no confirmation replies received from the latter to ascertain the correct balances.

2. Variances were noted between the LWUA and Bureau of Treasury's book balances of their respective payables/ receivables as of December 31, 2011.

We therefore recommended that LWUA's Accounting Department coordinate with the Bureau of Treasury to reconcile the book balances of accounts related to their foreign loans to fairly present the accurate amount of foreign loans at the end of each year.

3. A total of 60 Water Supply Projects with fund releases from Non-LWUA Initiated Funds (NLIF) to 57 water districts totaling P543.24 million which started in January 2011 were reported with 8% to 93% of completion as of December 31, 2011 and could not be completed as no further releases were received from the National Government. Likewise, nine (9) water supply projects were started by water districts without any fund releases received from NLIF.

We recommended that LWUA should adopt other means to finance the water system projects listed under Table 3.2 that are awaiting additional funds to complete and to make them operational to serve the needs of the intended users.

4. LWUA's contract with Secur Links Network and Technologies, Incorporated (SLNTI) for the development of the Water District Geographical Information System Database Management System (WDGIS /DBM) project in the amount of ₱223.88 million, of which the amount of ₱115.283 million or 52% was paid in March 2011, was found:
 - a. Not compliant with the requirement that the contract was to be certified by the Department Secretary that it has been entered into in faithful compliance with applicable laws and regulations as required under Sections 4(b) and 5 of Executive Order No. 423 dated April 30, 2005;
 - b. Not supported with document(s) indicating that SLNTI was then an exclusive distributor for WDGIS / DMS; and
 - c. With partial acceptance for the 50% accomplishment of the project as of April 22, 2010, hence, no evaluation of price reasonableness by COA Technical Audit Specialists could be conducted in the absence of final acceptance specifically of the Application Service Module.

Considering the foregoing, we recommend that Management immediately resolve the case with SLNTI with the assistance of the OGCC, in the best interest of LWUA .

5. Procurement of three units of inflatable ribbed/rubber boats and Reverse Osmosis Mobile Water Treatment was done through Limited Source Bidding without any documentation of compliance with Sections 49.1 Rule XVI of IRR of RA 9184.

We recommended that Management need to assess and review LWUA's policies on ensuring effective competition in the bidding process for purpose of promoting economy. We also recommended that Management ensure strict compliance with pertinent provision of RA 9184.

6. Actual expenses for Personal Services in CY 2011 exceeded the DBM-confirmed Corporate Operating Budget (COB) by ₱189.98 million contrary to Section 4(1) of PD 1445 due to inclusion of allowances and benefits without legal basis or subject to certain conditions.

We are pleased to note that Management discontinued the grant of Anniversary Bonus effective September 2011, and of COLA, amelioration allowance, mid-year financial assistance effective February 2012; and reduction of uniform allowance to the allowed amount of P4,000 effective January 2012.

7. LWUA continued the grant of multi-purpose and calamity loans to its officers and employees totaling P29.576 million in CY 2011 using the Corporate Fund, despite the prohibition under Section 4(3) of PD 1445. Moreover, only 16.07% of the outstanding loans receivable from LWUA officers and employees which were previously granted despite having no legal basis, was collected during the year.

We recommend the following:

- a. **Stop the granting of loans to LWUA officers and employees as this is prohibited under Section 4(3) of PD 1445 which provides that government funds shall be spent or used solely for public purposes;**
 - b. **Restore the salary deduction for the amortization of the multi-purpose loans of LWUA officers and employees concerned;**
 - c. **Institute the necessary legal action against those who fail to pay their loans; and**
 - d. **Intensify collection campaign for receivables from officers and employees.**
8. Outstanding cash advances totaling ₱2.857 million representing 56% of the year-end balance of P5.122 million remained unliquidated although its purposes had already been served contrary to the provisions of Section 89 of PD 1445 and COA Circular No. 97-002.

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.

9. Advances to Water Districts in the amount of ₱24.219 million for Typhoon Reming Rehabilitation Projects were still outstanding even though the projects have been completed while ₱2.348 million remained dormant for 12 to 17 years.

We recommend that Management require the water districts concerned to immediately submit liquidation documents on the cash advances for rehabilitation funds, and enforce the necessary sanctions against those who continue to disregard the liquidation requirement.

10. Management failed to submit for audit data on fund release to each of the water districts.

We recommended that Management maintain up-to-date information on how much have been released to each recipient Water District out of the National Government Subsidy or the Corporate Fund, as these data are very useful in determining Water Districts that could not pursue their water supply projects because of insufficient funding, among other purposes.

11. The Annual GAD Plans and Programs for CY 2011 was not submitted to NCRFW for review and endorsement as prescribed under Section 5.1 of Joint Circular No. 2004-1. Moreover, LWUA GAD Focal Point Accomplishment for CY 2011 did not meet the desired target performance for GAD Administered Programs/Activities as some activities were scrapped or postponed due to austerity measures of LWUA, resulting in incurrence of GAD expenses of only P29,756.35 or 0.46% of the total budget.

We recommended that Management enhance and implement the plans/ activities in accordance with the budget as authorized under Annual General Appropriations Act and strictly comply with the requirements set forth under Joint Circular No. 2004-01.

12. Status of audit suspensions, disallowances and charges as of December 31, 2011

Based on the Notice of Disallowances issued, total audit disallowances found in the audit of various transactions of the LWUA, as of December 31, 2011 amounted to P942,729,993.13. Notice of Suspensions issued totaled P34,143,000. There was no Notice of Charge issued as of December 31, 2011.

13. Status of implementation of prior year's audit recommendation

Out of the twenty eight (28) audit recommendations embodied in previous year's Annual Audit Report, twenty (20) were implemented and eight (8) were not implemented



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 were mandated to audit the accompanying financial statements of the **Local Water Utilities Administration**, which comprise the statement of financial position as at December 31, 2011, 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 conducting the audit in accordance with Philippine Standards on Auditing. Because of the matters described in the Basis of Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient, appropriate audit evidence to provide as basis for an audit opinion.

Basis for Disclaimer of Opinion

The Notes to the financial statements stated that the Company has an ongoing clean-up activities on its books which resulted to certain adjustments in the financial statements. The Company still expects adjustments on certain items as the clean-up activities continue. The restated figures for 2010 are still subject for validation.

Note 1 of the Notes to Financial Statements stated that the accompanying financial statements of LWUA for the year ended December 31, 2011 are still subject for further review

and validation on certain transactions, balances and possible adjustments as stated/detailed in Note 3.

As discussed in Note 3, the new Board of Trustees upon assumption to Office in June 2011 immediately directed a clean-up of LWUA'S books to reflect its true financial condition and performance. The clean-up activities have not yet been completed as of December 31, 2011 and are still on-going as at audit report date. Many issues have been identified and addressed, several issues required possible adjustments in the financial statements, and others required policy changes and reforms and systems improvement.

Disclaimer of Opinion

Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

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 31 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 Disclaimer of 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

March 7, 2013

Local Water Utilities Administration
STATEMENT OF FINANCIAL POSITION
As of December 31, 2011

	NOTE	2011	2010 As Restated
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalent	6	1,598,201,597	261,906,233
Receivables, net	7	1,192,738,136	2,091,575,661
Supplies Inventory	8	3,203,024	2,945,213
Other Current Assets, net	9	96,281,221	108,304,410
Total Current Assets		2,890,423,978	2,464,731,517
NON-CURRENT ASSETS			
Long-Term Receivables, net	10	8,778,437,675	10,888,689,501
Long-term Investments	11	581,878,991	852,785,349
Property and Equipment, net	12	207,910,525	227,617,693
Other Non-Current Assets, net	13	3,490,317,883	2,904,540,799
Total Non-Current Assets		13,058,545,074	14,873,633,342
TOTAL ASSETS		15,948,969,052	17,338,364,859
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts Payable	14	483,967,541	1,074,809,134
Payables to Government Agencies	15	11,070,872	58,743,191
Other Current Liabilities	16	3,587,346,448	3,381,507,903
Total Current Liabilities		4,082,384,861	4,515,060,228
NON-CURRENT LIABILITIES			
Loans Payable, Gov't. of the Phils., net	17	1,625,165,563	1,775,629,523
Loans Payable - Foreign, net	18	4,334,282,968	4,514,782,674
Loans Payable, Local, net	19	408,320,000	424,973,333
Deferred Credits	20	4,657,230	11,056,935
Total Non-Current Liabilities		6,372,425,761	6,726,442,465
TOTAL LIABILITIES		10,454,810,622	11,241,502,693
EQUITY			
Capital Stock	21	2,500,000,000	2,500,000,000
Donated Surplus	22	3,542,118,234	3,192,686,946
Miscellaneous Surplus		61,370,305	61,370,305
Retained Earnings	23		
Balance, Beginning		342,804,915	106,585,101
Net Income/Loss for the Period		(952,135,024)	236,219,814
Total Retained Earnings		(609,330,109)	342,804,915
TOTAL EQUITY		5,494,158,430	6,096,862,166
TOTAL LIABILITIES AND EQUITY		15,948,969,052	17,338,364,859

See accompanying Notes to Financial Statements

LOCAL WATER UTILITIES ADMINISTRATION NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Local Water Utilities Administration (LWUA) or the Company is a government-owned and controlled corporation (GOCC) with a specialized lending function mandated by law to promote and oversee the development of water supply systems in provincial cities and municipalities outside of Metropolitan Manila. It holds its office in its own building at the MWSS-LWUA compound located at Balara, Quezon City. Presidential Decree (PD) No. 198 dated May 25, 1973 (as amended by PD Nos. 768 and 1479), otherwise known as the Provincial Water Utilities Act of 1973, created 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 its mandate is to provide a composite of financial, technical and institutional development and regulatory services to water utilities. In 1987, LWUA's mission and area of responsibility were expanded to include provision of Level II service (communal faucet system) through the Rural Waterworks and Sanitation Associations (RWSAs) in areas where Level III systems (individual household connection) were not feasible. Some of the major functions of LWUA include the following:

- To prescribe 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;
- To furnish technical assistance for personnel training program for local water utilities;
- To monitor and evaluate local water standards; and
- To effect systems integration, joint investment and operations, district annexation and de-annexation whenever economically warranted.

LWUA being a GOCC is also now governed by the Governance Commission for GOCCs (GCG). GCG was constituted by Republic Act (RA) No. 10149, otherwise known as the "GOCC Governance Act of 2011", to act as "central advisory, monitoring, and oversight body with authority to formulate, implement and coordinate policies governing GOCCs, government financial institutions (GFIs), government instrumentalities with corporate powers (GICP) and government corporate entities (GCE)."

The accompanying financial statements of LWUA for the year ended December 31, 2011 are still subject to further review and validation of certain transactions, balances and possible adjustments as stated/detailed in Note 3.

2. BASIS OF PREPARATION

LWUA is in the process of reviewing and updating its accounting policies and practices to comply with Philippine Financial Reporting Standards (PFRS) for its financial statements. As of December 31, 2011, however, the accompanying

financial statements of the Company are not prepared in compliance with PFRS because of the non-adoption of the following:

- Accrual accounting which depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. LWUA employs the modified accrual basis of accounting for income and expenses, in conformity with the National Government Accounting System (NGAS) policy, wherein revenues are recognized in the period they become available and measurable and expenditures are recognized in the period the associated liability is incurred (see accounting policy on Revenue and Expense Recognition in Note 4).
- PFRS 1, "First-time Adoption of Philippine Financial Reporting Standards," requiring the Company to comply with PFRS effective at the reporting date for its first PFRS financial statements. In particular, PFRS requires the Company to do the following in the PFRS statement of financial position that it prepares as a starting point for its accounting under PFRS: (a) recognize all assets and liabilities whose recognition is required by PFRS; (b) not recognize items as assets or liabilities if PFRS do not permit such recognition;(c) reclassify items that it recognized under previous generally accepted accounting principles as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under PFRS; and (d) apply PFRS in measuring all recognized assets and liabilities.
- PFRS 7, "Financial Instruments: Disclosures," and the complementary amendment to Philippine Accounting Standards (PAS) 1, "Presentation of Financial Statements," requiring new disclosures to improve the information about financial instruments. PFRS 7 requires the disclosure of qualitative and quantitative information about exposure risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces the disclosure requirements of PAS 32, "Financial Instruments: Presentation." It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of the Company's capital and how it manages capital. Among the information required to be disclosed are the Company's objectives, policies and processes for managing capital, quantitative and qualitative data about what the Company regards as capital, and, whether the Company has complied with the capital requirements. The Company has not included full disclosures required by PFRS 7 and the amendment to PAS 1 in the accompanying financial statements.
- PAS 27, "Consolidated and Separate Financial Statements". The Company has investments in subsidiaries (see Note 11) but it does not prepare consolidated financial statements as required by PAS 27. The investments are simply carried at cost, net of impairment.
- PAS 39, "Financial Instruments, Recognition and Measurements" requiring the

Company to carry its financial assets at amortized cost. LWUA simply carried its financial assets at historical cost.

The financial statements have been prepared on a historical costs basis.

The financial statements and notes accompanying thereto are presented in Philippine peso (Php) and all values are rounded to the nearest peso, except when otherwise indicated.

3. CLEAN-UP ACTIVITIES

In June 2011, a new Board of Trustees was appointed to oversee the operations of LWUA. Upon assumption to office, the new Board immediately directed a clean-up of LWUA's books to reflect its true financial condition and performance. The clean-up activities have not yet been completed as of December 31, 2011 and are still ongoing as at audit report date.

During the clean-up activities, many issues have been identified and addressed: several issues required possible adjustments in the financial statements; others required policy changes and reforms and systems improvement. Issues that required possible adjustments consisted of: (a) those for which the amounts have been readily determined and validated, and thus reflected in the accompanying financial statements; (b) those which pertained to uncertainties, and thus amounts to be adjusted (e.g. possible losses) require further review and validation to ensure reasonableness of amounts to be adjusted, as may be under some legal process; (c) those pertaining to financial statements accounts which are still subject for further review and validation, and thus no adjustments could yet be recommended; and (d) those transactions which are still for further review and validation. LWUA has continually updated the government agencies with oversight function over LWUA and the Commission on Audit (COA) with a list of these issues and have requested for COA's advice and assistance especially with regard to item (c), to ensure that all the issues are properly handled. LWUA shall take up all these adjustments once the review and validation are completed.

LWUA has requested for a special full audit by COA as early as July 2011, and still awaiting such review.

A. The issues that required possible adjustments are summarized below, together with their impact on the financial statements. More detailed discussions are included in the respective notes for the financial statement account involved:

- 1) Those for which the amounts have been readily determined and validated and thus reflected in the accompanying financial statements:

Description of Adjustment	Increase (Decrease) - <i>In Millions</i>			
	Net Income		Retained Earnings	
	2011	2010	As of Dec. 31, 2011	As of Dec.31, 2010
1 Reversal of depreciation - Geographical Information System (GIS) (see Note 13)	18.445		18.445	
2 Correction of error in recording to miscellaneous receivables portable water quality monitoring equipment purchased - part of Presidential Social Fund (PSF) issue - (see Item 2 (2) below and Note 13, P16.72 million)		-		
3 Loss provision on loans receivable, based on new loss provisioning policy (see Note 7 & 10)	(1,405.217)		(1,405.217)	
4 Other deferred credits for interest earned but not yet collected for possible offset against loans receivable for financial statements purposes only (see Note 20) - P884.81 million		-		
Totals	(1,386.772)	-	(1,386.772)	-

- 2) Those which pertained to uncertainties and thus amounts to be adjusted (e.g. possible losses) require further review and validation to ensure reasonableness of amounts to be adjusted, as may be under some legal process:

Description of Adjustment	Increase (Decrease) - <i>In Millions</i>			
	Net Income		Retained Earnings	
	2011	2010	As of Dec. 31, 2011	As of Dec.31, 2010
1 Reversal of interests accruing to nonperforming loans (see Note 10)	(257.138)	(657.859)	(257.138)	(657.859)
2 Financial grants to water districts (WDs) under the purported PSF (which includes the questionable purchase of P110 million worth of portable water quality monitoring equipment) with questions raised by COA and with opinion from the Office of the General Corporate	(2,126.122)	-	(2,126.122)	-

	Counsel (OGCC) (Note 13) - P2.347 billion, about 90% may be difficult to collect based on conservative estimate by Company management. LWUA's inability to meet the additional funding requirement for the total of the program of work for these grants of P6 billion will be a factor affecting the collectability of these receivables.				
3	Investments/ deposits in Express Savings Bank, Inc. (ESBI) with Notice of Disallowance (ND) issued by COA in August 2011 (Note 11 & 13) - P780 million, about 50% of P780 million less P500,000 deposit insurance with the Philippine Deposit Insurance Corporation (PDIC) may not be collected as estimated by Company management	(389.750)		(389.750)	
4	Investment in LWUA Consult, Inc. (LCI), a 100% owned subsidiary with same objective as LWUA, with questions raised by COA (Note 11) - P31.6 million	(20.000)		(20.000)	
5	Accounts in dispute with WDs (e.g. Bacolod with balances of P255.78 million and Santiago, Isabela with balances of P893.91 million) presently under discussions between LWUA and the WDs and in process of reconciliation (Notes 7 and 10)- P389.4 million	(389.387)		(389.387)	
6	Long outstanding receivables from contractors and consultants (Note 9) - P49.3 million	(49.277)		(49.277)	
7	Multi-purpose loans of P2.65 M/ housing assistance loans of P.86 M/ medical loan of P.01 M of resigned employees and former Board (Note 10) - P3.52 million	(3.520)		(3.520)	
8	Receivable from resigned employees for benefits paid with ND (Note 7) - P8.1 million	(8.119)	-	(8.119)	-
	Totals	(3,243.313)	(657.859)	(3,243.313)	(657.859)

- 3) Those pertaining to financial statements accounts which are still subject to further review and validation and thus no adjustments could yet be recommended:
- Trust liabilities/ liabilities for special fund with balances per books as of December 31, 2011 of P1,808 million - insufficiency of cash to cover trust liabilities and WDs deposits (Notes 6, 13, and 16);
 - Continuing corrections of and adjustments to Retained Earnings account/ questionable prior year's adjustments every year (Note 23) - P143.31 million credit to retained earnings, net of total credit of P1,428.46 million vs. total debit of

P1,285.15 million, but several unclear adjustments as to basis and amounts made in prior years which still need to be firmed up;

- c. Adjustment in computation of dividends payable to National Government, after effecting all required adjustments in the clean-up activities, most especially that relating to reversal of interest income on nonperforming loans (Note 16);
 - d. Status of Water Supply and Sanitation Project Development Efficiency and Improvement Fund included under other payables (Note 16) - P250 million;
 - e. Debit adjustment to loans payable - foreign in 2011 due to foreign exchange revaluation (see Note 23);
 - f. Transfer to donated surplus account in 2011 of loan component of Non LWUA Initiated Fund (NLIF) (Note 22) - P349 million to be validated for propriety and consistency of treatment; and
 - g. Adjustment in income tax, income tax payable and deferred income tax, after effecting all required adjustments in the clean-up activities, most especially that relating to reversal of interest income on nonperforming loans (see Notes 13, 28, and 30)- balances per books as of December 31, 2011 for income tax and deferred tax asset of P13.663 million and P422,985,272, respectively.
- 4) Those transactions which are still for review and validation:
- a. Down payment on GIS acquired under contract for P223.8 million, with questions raised by COA (with tax paid less 10% retention) (Note 13) - P136.632 million, net of 10% retention and plus tax paid;
 - b. Information Systems and Strategic Plan carried under Property and equipment still uncompleted to date after 10 years (Note 12) - more than P200 million but amount still to be firmed up;
 - c. Renovation of LWUA dorm with questions raised by COA (Note 12) – P39.47 million;
 - d. Difference in 2011 between the loans receivable control account and the subsidiary details account, down from P0.6 billion (control account greater than subsidiary details account) when the new Board came in (Note 10) - P41 million;
 - e. Multi-purpose loans to employees, considering employees' capacity to pay with the discontinuance of the benefits without legal basis (Note 10) - P211.79 million balance as at December 31, 2011, amount to be firmed up;
 - f. The related interest during construction or capitalized interests, and all project related costs like engineering design costs and construction supervision costs corresponding to the nonperforming loans which have also been taken up as income during the project construction although they are part of the loan amortization and therefore not yet collected (Note 10);

- g. Other receivables billed to WDs but were being disputed which pertained to construction costs, construction supervision capitalized interests and penalties, to determine how pervasive the issue is. This may require review of systems and procedures and proper accounting treatment;
- h. Reasonableness of costs of projects and compliance with requirements for certain contracts totaling P1 billion as part of the review of loans receivable; still awaiting the results of the technical audit review from COA (Note 10);
- i. Project disbursements totaling P673.0 million for 2011 as part of the review of the trust fund liabilities; list of projects disbursements is still being prepared (Note 16);
- j. Effects of restructuring policies, in the light of many restructured loans which have not been paid and became nonperforming loans again, after which the WDs reapply again for restructuring; also, proper accounting treatment, especially with regard to interest and penalty under study (Note 10);
- k. COA audit suspensions, disallowances and charges totaling P1,210 million for 2004 to 2010 (Note 26 and Note 32);
- l. Effects of nonperforming loans restructured but which have not been paid and became nonperforming loans again, after which the WDs reapply again for restructuring, including interest and penalty; and
- m. Possible interest accrual on the PSF releases while revised contracts are being discussed (Note 13)

As the clean-up activities continue, LWUA expects to record additional adjustments. The accompanying financial statements, therefore, for the year ended December 31, 2011 are still subject to further review and validation of certain transactions, balances and possible adjustments as discussed in this note and the notes pertaining to the accounts involved.

- B. For issues that required policy changes and systems improvements, LWUA is undertaking the following institutional reforms, which have become the current Board's major priorities, moving forward (refer also to Note 33):
 - 1) Holistic review of entire lending operations – to include receivables management; detailed review of receivables from WDs; control over project disbursements to include use of project selection criteria, capital investment

programming and disbursements scheduling, and standard costing; and requirement for technical audit on projects to determine cost overruns;

- 2) Fund sourcing for sustainability and investments / projects – including increased capitalization for LWUA and identification of regular fund sources;
- 3) Strong financial management - focus on cash flows and strict compliance with documentary requirements;
- 4) Capacity building – fast tracking of Employees' Early Retirement Program (ERIP); skills development
- 5) Formulation of long-term strategic initiatives – setting of clear vision for LWUA and development of strategic plans and roadmap aligned with those of the Department of Public Works and Highways (DPWH), the government agency which has the primary oversight function over LWUA, of the water sector, and of the present Administration;
- 6) Review of existing systems, policies and procedures for improvement and updating of manuals;
- 7) Monitoring of WDs through benchmarking, review of COA audit reports and WDs compliance, and other institutional milestones; and
- 8) Strict compliance with GCG requirements.

It is envisioned that these reforms will address the current issues of LWUA like the continuing negative cash position from operations and continued practice of refinancing where refinancing proceeds are used not only for funding of water supply projects but also for operating expenses. (see Note 10)

In addition to the above reforms, during the year, the Board was successful in controlling its operating costs, in addition to mandatory cut on certain maintenance and other operating expenses. As part of its governance initiatives, the Board has:

- 1) Filed cases and/or submitted complaints before the proper authorities against certain LWUA officers relative to some issues as discussed above. Other issues are still under study for investigation / filing of appropriate legal action.
- 2) Discontinued various employees' benefits / incentives continuously given for several years although disallowed by COA and the Department of Budget and Management (DBM) as without legal basis. Total benefits discontinued in 2011 amounted to P199.243 million. (See Note 26)
- 3) Discontinued the grant of multi-purpose loan, which both DBM and COA claimed to be without legal basis. Total amount granted by the previous Board for 2011 amounted to P24.32 million. (See Note 10)

In February 2012, the Board also discontinued the cost of living allowance (COLA) and amelioration allowance (AA) given to employees which COA and DBM claimed as without legal basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been adopted in the preparation of the accompanying financial statements are summarized below. These policies have been consistently applied to all the years presented.

Financial Assets included in this classification are LWUA's cash and cash equivalents, receivables, long-term receivables, restricted funds and receivables from WDs - PSF (see Notes 6, 7, 10 and 13).

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash Equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to insignificant risk of changes in value.

Restricted Funds

Restricted funds include cash deposit in Bank now under PDIC receivership as well as cash deposits earmarked for a specific purpose and therefore not available for immediate and general use. This is shown separately from the Cash and Cash Equivalents and classified as non-current asset (see Note 13).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at historical cost. Gains and losses are recognized in the statement of income and expenses when the loans and receivables are derecognized or impaired, and when subsequently restructured. Interest earned is recorded in "Interest income" account in the statement of income and expenses. Assets in this category are included in the current assets except for assets with maturities beyond 12 months from the reporting date, which are classified as noncurrent assets.

As part of the clean-up activities of the new Board (see Note 3), LWUA made an assessment for collective impairment allowance against its credit exposures on its loans receivables. The credit exposures were grouped based on common credit characteristics, although not specifically identified as requiring a specific allowance, considering that they have a greater risk of default than when the receivables were originally granted. The loans have been classified into (a) non-performing loans which refer to loan accounts in arrears for at least three (3) months and (b) loans in arrears up to two (2) months (see Note 5, 7 and 10).

Loans that were past due and whose terms have been modified in accordance with a restructuring agreement to bring the account into current accrual status are classified

as non-current assets. The modification of terms include but is not limited to an extension of maturity and/or a change in the face amount of the debt. Uncollected past due interests are incorporated into the face amount of the debts and recorded as deferred credit. This is offset against the water districts' receivable account for financial statement presentation only.

Held-To-Maturity (HTM) investments

HTM investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which LWUA has the positive intention and ability to hold to maturity. Gains and losses are recognized in the statement of income and expenses when the investments are derecognized or impaired. HTM investments are included in current assets except if their maturities are beyond 12 months from the reporting date, which are classified as noncurrent assets.

LWUA's investment in bonds is classified as HTM investments (see Note 11).

Financial Liabilities

Financial liabilities classified in this category are not held for trading or not designated as at FVPL (fair value through profit or loss) upon inception. These include liabilities arising from operations or borrowings. Other financial liabilities are classified as current liabilities if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent liabilities.

Gains and losses are recognized in the statement of income and expense when the liabilities are derecognized.

Financial liabilities included in this classification are LWUA's accounts payable, payable to government agencies, loans payable, guaranty deposits payable, dividends payable and other payables (see Notes 14, 15, 16, 17, 18 and 19).

Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

As part of the clean up activities of the new Board (see Note 3), the Company made an assessment for collective impairment allowance against its credit exposures on its loans receivables. The credit exposures were grouped based on common credit characteristics, although not specifically identified as requiring a specific allowance, considering that they have a greater risk of default than when the receivables were originally granted. The loans have been classified into (a) non-performing loans which refer to loan accounts in arrears for at least three (3) months and (b) loans in arrears up to two (2) months (see Notes 5, 7 and 10).

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its right to receive cash flows from the asset; and
- either LWUA (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income and expenses.

Inventories

Inventories are valued at the lower of cost, determined by the first-in, first-out method, and net realizable value. Net realizable value is the current replacement cost.

Investments in and Advances to Subsidiaries

LWUA's investments and advances to subsidiaries (entities which LWUA controls) are carried in the statement of financial position at cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less any accumulated depreciation/amortization and/ or accumulated impairment losses. Significant renewals and betterments are capitalized if the recognition criteria are met. All other repairs and maintenance costs are charged to operations as incurred.

Depreciation is computed using the straight-line basis over the useful lives of the assets as follows:

Building and improvements	30 years
Furniture	10 years
Office equipment	5 years
Engineering and laboratory equipment	10 years
Other equipment	7 years/10 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amounts of the asset) is included in the statement of income and expenses when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Other Non-current Assets

Deferred Engineering Study Costs, Well Drilling Costs and Other Charges. Expenses related to engineering study, well drilling and other services are booked under "Deferred Charges" account when incurred and eventually transferred to receivable account when billed or to expense account when the implementation of the water supply system is discontinued.

Impairment of Nonfinancial Assets

Investments in and Advances to Subsidiaries, Property, Plant and Equipment and Other Non-current Assets. The Company assesses at each financial reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount.

Deferred Credits

Unearned Income from Well Drilling Contracts. The projected 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 after project completion. The basis for determination of cash generated from each completed WDP is the difference between the collections from the WDs and the actual disbursements for services rendered.

Unearned Income from Engineering Study. The contract costs for the WD Financed Technical Services (WDFTS) 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 the WDs upon completion of the WDFTS. The basis for determination of cash generated from the service rendered is the difference between the collections from the WDs and the actual disbursements of LWUA for the services rendered.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown as a deduction from equity, net of any related tax benefit.

Donated Surplus. Donated surplus 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 (NG) loaned out to WDs. Pursuant to the General Appropriations Act, said releases may be treated as equity contribution of the NG to LWUA in the event that its authorized capitalization is increased by law.

Miscellaneous Surplus. Miscellaneous surplus represents the cost of Levels II and III water supply projects constructed by the DPWH and turned-over to the Rural Waterworks Development Corporation (RWDC) pursuant to Executive Order (EO) 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.

Retained Earnings. The amount included in retained earnings includes accumulated profit and loss attributable to LWUA's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from retained earnings when they are declared. Dividends for the year that are approved after the reporting date are dealt with as an event after the financial reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions. It has been LWUA's practice to record adjustments purportedly pertaining to accounts of prior period against LWUA's retained earnings; as such, there is an annual prior period adjustment in LWUA's financial statements. In 2012, the Board directed that there shall be no adjustments in retained earnings account unless approved by the Board. (See Notes 3 and 23)

Revenue and Expense Recognition

LWUA employs the modified accrual basis of accounting for income and expenses wherein revenues are recognized in the period they become available and measurable and expenditures are recognized in the period the associated liability is incurred. (See above notes on Deferred Engineering Study Costs, Well Drilling Costs and Other Charges, Deferred Credits, and Retained Earnings.)

Income Taxes

Current Income tax. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the

taxation authority. The tax rate and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred Income Tax. Deferred income tax is provided using the balance sheet liability method on all temporary differences at the reporting date between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that these have become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rate and tax laws that are enacted or substantively enacted as at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset deferred income tax assets against deferred income

tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

As stated in Note 3, the new Board has directed a clean-up of LWUA's books to reflect LWUA's true financial condition and performance. The clean-up activities are still ongoing, and any adjustment affecting the income tax, income tax payable and deferred income taxes shall be taken up when the clean-up activities are completed.

Foreign Currency Transactions

Foreign currency transactions are translated into Philippine peso at exchange rate prevailing on transaction dates. Foreign currency denominated monetary assets and liabilities are translated at the exchange rate prevailing at reporting dates. Exchange gains or losses arising from foreign exchange transactions or translation are recognized in profit or loss for the period.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgment

In the process of applying LWUA's accounting policies, management has made the following judgment, which has the most significant effect on the amounts recognized in the financial statements.

Determination of Functional Currency

The functional currency of LWUA is the currency of the primary economic environment in which it operates. It is the currency that mainly influences the revenue and cost of rendering services.

The presentation currency of LWUA is the Philippine peso. Based on the economic substance of the relevant underlying circumstances, the functional and presentation currency of LWUA is the Philippine peso.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the following:

Estimating Allowance for Doubtful Accounts

If there is objective evidence that an impairment loss has been incurred in loans and receivables, an estimate of the allowance for doubtful accounts related to such loans and receivables that are specifically identified as doubtful of collection is made. The amount of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In previous years, LWUA had been providing allowance for possible losses on receivables from WDs at the following rates: (a) for performing loans, 25% of interest receivable and current portion of long-term loans receivable, and 4% of long-term portion of loans receivable; and (b) for nonperforming loans and loans to nonoperational WDs, 40%.

As stated in Note 4, as part of the clean-up activities of the new Board (see Note 3), LWUA made an assessment for collective impairment allowance against its credit exposures on its loans receivables. This is in addition to specific allowance against individually significant loans and receivables. The credit loans have been classified into (a) non-performing loans which refer to loan accounts in arrears for at least three (3) months, and (b) loans in arrears up to two (2) months. LWUA also adopted a policy on provision for losses on receivables from water districts at the following rates: *(Refer to Note 3)*

In arrears, non-performing loans	75%
In arrears, up to 2 months	50%
In current status	0%

Total asset impairment provision for loans and receivables recognized in the statement of income and expenses amounted to P1.410 billion and P189 million for the years ended December 31, 2011 and 2010, respectively. The carrying values of loans and receivables as at December 31, 2011 and 2010 are as follows (see Notes 7, 10 and 13):

	2011	2010
	<i>(In Millions)</i>	
Receivables	1,193	2,092
Long-Term Receivables	8,778	10,889
Receivables from WDs-PSF	2,362	2,343

As stated in Note 3, there are still financial assets whose impairment assessment is still ongoing.

Estimating Useful Lives of Property, Plant and Equipment

LWUA estimates the useful lives of property, plant and equipment based on the periods over which such assets are expected to be available for use. The estimate of

the useful lives of the property, plant and equipment is based on management's collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of the property, plant and equipment are reviewed at least at each reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of such assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned in the foregoing. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment would increase recorded depreciation and decrease the carrying amount of property, plant and equipment.

Depreciation of property, plant and equipment amounted to P339,235,794 million and P299,040,204 million for the years ended December 31, 2011 and 2010, respectively. Carrying value of property, plant and equipment, net of accumulated depreciation, amounted to P208 million and P228 million as at December 31, 2011 and 2010, respectively (see Note 12).

Impairment of Nonfinancial Assets (Investments in and Advances to Subsidiaries, Property, Plant and Equipment and Other Non-current Assets)

PFRS requires that an impairment review be performed when certain impairment indicators are present. This requires use of estimates. Determining the recoverable amount of investments in and advances to subsidiaries, property, plant and equipment and other non-current assets, requires (i) the determination of future cash flows expected to be generated from the continued use as well as ultimate disposition of such assets, and, (ii) making estimates and assumptions that can materially affect the financial statements. Future events could cause management to conclude that investments in and advances to subsidiaries, property, plant and equipment and other non-current assets are impaired. Any resulting impairment loss could have a material adverse impact on the LWUA's financial position and results of operations.

The preparation of estimated future cash flows involves significant estimations and assumptions. While management believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges under PFRS.

The carrying values of nonfinancial assets as of December 31, 2011 and 2010 subject to impairment review are as follows (see Notes 3, 11, 12 and 13):

	2011	2010
	<i>(In Millions)</i>	
Investments in and advances to subsidiaries	512	512
Property, Plant and Equipment	208	228
Other Non-Current Assets		
Deferred Engineering Study Costs	70	43
Deferred Well Drilling Costs	-	1
Other Deferred Charges	15	14
Other Assets	137	-

Realizability of Deferred Tax Assets

LWUA reviews the carrying amounts of deferred tax assets at the end of each reporting period and reduces these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Assessment on the recognition of deferred tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting periods. This forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies.

As stated in Note 3, the new Board has directed a clean-up of LWUA's books to reflect LWUA's true financial condition and performance. The clean-up activities are still ongoing, and any adjustment affecting the income tax, income tax payable and deferred income taxes shall be taken up when the clean-up activities are completed. The amounts of the deferred tax assets considered realizable could be adjusted in the future if estimates of taxable income are revised.

Total recognized deferred tax assets amounted to ₱965 million and P542 million as at December 31, 2011 and 2010 respectively. The account "Deferred Tax Asset" is presented and classified under "Other Non-Current Assets", net of the Deferred Tax Liability, as follows: (see Notes 3 and 13)

	2011	2010
Deferred Tax Assets	965,104,347	542,119,074
Deferred Tax Liabilities	261,681,142	261,681,142
Net Deferred Tax	703,423,205	280,437,932

6. CASH AND CASH EQUIVALENTS

As restated

This account consists of: 2011 2010

Cash on Hand	673,845,619	34,378,648
Cash in Bank - Local Currency	916,553,715	189,336,304
Cash in Bank - Foreign Currency	-	288,312
Short-Term Investments	7,802,263	37,902,969
Total Cash and Cash Equivalents	1,598,201,597	261,906,233

Cash on hand included the trust fund received from Department of Health (DOH) in the amount of P619.6 million received at the close of banking day of 2011.

Cash in banks included the amount of P357.1 million in 2011 and P17.9 million in 2010, representing the proceeds from refinancing of certain receivables received in December 2011 and in December 2010, respectively. (See Note 10)

The 2010 cash and cash equivalent balances of P639,508,077 was restated to P261,906,233 due to recognition of restricted funds consisting of P303 million cash deposit with the ESBI, as well as cash deposits with LBP and PNB which were earmarked for specific water supply projects. Restricted funds amounting to P379 million was categorized under Other Non-current Assets Account (See Note 13).

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of LWUA and earn interest at the prevailing short-term deposit rates ranging from 3% to 3.5% p.a. in 2011 and 3.9% to 4.2% in 2010.

In 2012, the new Board issued a directive that all trust funds received and refinancing proceeds be kept in separate funds and restricted for use in projects. (see Notes 10 and 16)

Interest income from cash and cash equivalents amounted to P5.469 million and P9.177 million in 2011 and 2010, respectively.

7. RECEIVABLES

This account consists of:

	2011	As restated 2010
Trade Receivables		
Loans Receivables from GOCCs	1,989,210,074	912,016,762
Interest Receivables	930,912,887	1,150,178,871
Receivables from Well Drilling Projects	582,151	8,119,967
Receivables from WDs on Overdue Acct.	-	582,536
Receivables from WDs on Open Account	405,483,444	945,733,166
Receivables from WD - Engineering Studies	3,038,400	518,400
Total	3,329,226,956	3,017,149,702

Less: Allowance for Bad Debts	1,940,294,197	802,745,113
Trade Receivables, Net of Bad Debts	1,388,932,759	2,214,404,589
Less: Undistributed Water District's Debt		
Service Collections (see Note 15)	52,898,346	164,716,175
Interest on Non-Performing		
Loans (see Note 20)	223,792,048	-
Trade Receivables, Net	1,112,242,365	2,049,688,414
Non-Trade Receivables		
Due from Officers and Employees	5,571,539	4,409,875
Receivables from Government Agencies	52,923,236	8,237,112
Receivables-Disallowances/Charges	13,110,998	13,110,998
Miscellaneous Receivables	13,931,469	21,170,734
Total	85,537,242	46,928,719
Less: Allowance for Doubtful Accounts	5,041,471	5,041,472
Non-Trade Receivables, Net	80,495,771	41,887,247
Total Receivables, Net	1,192,738,136	2,091,575,661

^{1/} LWUA is still reconciling all transactions affecting income taxes

Loans receivables from GOCCs represent the current portion of outstanding long-term loans receivables from WDs of P12,196.69 million in 2011 and P13,101.80 million in 2010, and from the RWSA of P61.44 million in 2011 and P62.22 million in 2010. (see Notes 3 and 10). The significant increase of 118% was due to the recognition of additional amortizations due within the next twelve months after the balance sheet date.

Interest receivables represent receivables from interests earned on outstanding loans from WDs and the RWSAs (see Notes 3 and 10). The 2010 balance was restated from P1,146.70 million to P1,150.18 million or an increase of P3.48 million as a result of prior year's interest billing adjustments that was recognized only in 2011 (See Note 23). Compared to 2010, the 19% decrease was due to loan restructuring.

Receivables from well drilling projects represent the amounts due from the WDs for its well drilling projects undertaken by LWUA. The 2010 balance was restated from P7.60 million to P8.12 million as a result of prior year's billing adjustment in favor of Tagum Well Drilling Project in the amount of P.52 million that was recognized only in 2011. The 93% decrease was due to correction made in 2011 for the double recording of billing in favor of Tuguegarao well Drilling Project in 2010.

Receivables from WDs on open account represent advance releases to WDs for projects while still awaiting a formal contract; many of the accounts have been outstanding for several years. The amount includes interest and penalty. LWUA is presently under discussion with the WDs with regard to these receivables, as part

of its review of LWUA's loans receivables. (See Note 10) The new Board has also required strict compliance with Company policy that all fund releases for projects be formally covered with formal contracts before actual fund release. The 2010 balance was restated from P833.51 million to P945.73 million as a result of billings of capitalized interests in favor of Santiago WD amounting to P8.32 million, Bacolod City WD amounting to P83.74 million and prior year's open account billings to various water districts amounting to P19.62 million. Compared to 2010, the decrease was attributable to open account billing in favor of Butuan City WD that was recognized in 2011 as loans receivable.

Receivables from engineering studies represent the amounts due from the WDs for engineering studies undertaken by LWUA. The increase was attributable to the cost of feasibility study and design billed on open account in favor of San Francisco WD, Agusan del Sur in June 2011.

Movements in the allowance for doubtful accounts for trade receivables are:

**ALLOWANCE FOR DOUBTFUL
ACCOUNTS TRADE RECEIVABLES -
CY 2011 and CY 2010**

2011	Loans Receivable from GOCCs	Interest Receivables	TOTAL
Balance at beginning of year	240,393,619	562,351,493	802,745,112
Add : Provisions	1,505,709	(1,600,922)	(95,213)
Total	241,899,328	560,750,571	802,649,899
Add/Deduct: Adjustments from Clean-Up of Books	1,000,399,420 ^{1/}	137,244,878 ^{2/}	1,137,644,298
Balance at end of year	1,242,298,748	697,995,449	1,940,294,197
2010			
Balance at beginning of year	222,414,213	466,636,164	689,050,377
Add : Provisions	17,979,406	95,715,329	113,694,735
Balance at end of year	240,393,619	562,351,493	802,745,112

Legend (See Note 3):

- 1) Loans Receivable from GOCCs – Additional allowance for bad debts
- 2) Interest Receivables – Additional allowance for bad debts

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. The amount represented advances to about 250 employees. The Board has required strict compliance with policy on advances and their liquidation. The 2010 balance was restated from P4.82 million to P4.41 million due to liquidations made in 2011 of prior year's cash advances.

Receivables-Disallowances and Charges pertain to receivables from LWUA officials for disallowances in COA post audit of payments to them of 'Extraordinary and Miscellaneous Expenses (EME) in 2006; such disallowances were the subject of COA Decision No. 2011-039 dated August 8, 2011 that became final and executory pursuant to Section 9, Rule X of COA's 2009 Revised Rules of Procedures, as modified under COA Resolution No. 2011-006 dated August 17, 2011. Of the total amount, P8.12 million pertains to resigned employees/former Board members (see Note 3). LWUA is still in discussion with LWUA officials affected for the collection of the amounts due from them, considering the discontinuance of benefits paid to them without legal basis. There were similar EME payments to LWUA officials for years after 2006 to 2011 which although disallowed in COA post audits are still awaiting final COA decision; accordingly, this has not been set up in the books. For comparability, the subject disallowance was likewise presented in 2010.

Receivables from Government Agencies pertain to interest bearing loans to Local Government Units (LGUs) of P4,712,583 as well as advances made to the Bureau of Internal Revenue (BIR) for income taxes paid in excess of the taxes due for 2011. Inasmuch as the final determination of LWUA's final income tax due or any possible BIR refund will depend on the completion of its clean up activities (see Note 3), no offset has been made against the amount due to BIR (see Note 15).

The amount also included a receivable from the Bureau of Treasury for P3.52 million for advances made for debt servicing of foreign loans, based on an offsetting arrangement approved by the Department of Finance (DOF) relative to LWUA's relent loans from the National Government; there was no such advance made in 2011.

Miscellaneous receivables represent the amounts due from parties which do not fall under any of the other classes of receivables. The balance includes payments made for the importation of materials and equipment chargeable against the contractor. For the purpose of comparative information, receivables amounting to P2,347,637,782 representing releases to projects purportedly funded by PSF was classified under Non-current Assets – Miscellaneous Receivables – WDs (PSF).

8. SUPPLIES INVENTORY

This account consists of:

As restated

	2011	2010
Office supplies inventory	847,913	1,018,024
Medical, dental and laboratory supplies	332,577	408,223
Other supplies inventory	2,022,534	1,518,966
Total Supplies Inventory	3,203,024	2,945,213

The **Office supplies inventory** account consists of supplies purchased/held for consumption in the normal course of LWUA operations. The 2010 balance was restated from P1.31 million to P1.02 million as a result of disposals of outdated/expired computer supplies and materials amounting to P.29 million.

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

The **Other supplies inventory** consists of materials and supplies for the repair and maintenance of LWUA's centralized air-conditioning system and other electro-mechanical facilities, lightings, and electrical fixtures/facilities, plumbing and sanitary fixtures, carpentry and other building and grounds improvement activities. Also included in this account are drilling supplies for future use of water districts' well drilling projects. The 2010 balance was restated from P2.73 million to P1.52 million due to the reported consumption of building materials and supplies. Compared to 2010, the increase was attributable to purchases worth P.30 million and reclassification made to Well Drilling Supplies Inventory account.

9. OTHER CURRENT ASSETS

As restated

This account consists of:	2011	2010
Advances to Contractors	51,267,669	52,231,577
Advances to Consultants	16,269,291	27,349,250
Advances to Water Districts	26,567,483	26,567,483
Prepaid Expenses	446,268	491,491
Guaranty Deposits	1,730,510	1,664,609
Other Current Assets	96,281,221	108,304,410

Advances to contractors account represents prepayments made to contractors for the mobilization of the government water supply projects. Of the amount, P38.89 million has been outstanding for several years. LWUA is in discussion with the legal counsel with regard to these accounts (see Note 3). LWUA is studying the possibility of not involving these contractors in future 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. The 2010 balance was restated from P25.97 million to P27.35 million for adjustments made in the liquidation of advances by the consultants. Of the amount, P7.45 million has been outstanding for several

years. LWUA is in discussion with the legal counsel with regard to these accounts (see Note 3). LWUA is studying the possibility of not involving these consultants in future projects.

Advances to WDs account substantially represents releases of funds to different WDs for earthquake rehabilitation, as well as for WDs struck by Typhoon Reming, which would have been subjected to liquidation. The account has been outstanding for several years, and claimed as may be chargeable to grants received by LWUA. The Board directed the immediate investigation of the issue, and is presently awaiting a formal report on the results (see Note 3).

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

Guaranty deposits refer to prepayments made to various firms / individuals, for electrical installation and telephone deposits, special studies, etc.

10. LONG-TERM RECEIVABLES

This account consists of:

	2011	As Restated 2010
Loans Receivable from Water Districts (WD)	12,196,693,326	13,101,802,744
Restructured Receivables - WD	761,581,224	533,258,488
Employees Multipurpose Loan Receivables	211,792,083	222,850,897
Unbilled Loans & Accounts Receivables - WDs	90,338,918	96,050,065
Loans Receivable - RWSA	61,437,481	62,224,953
Sub -Total	13,321,843,032	14,016,187,147
Less : Current Portion (see Note 7)	1,989,210,074	912,016,762
Sub -Total	11,332,632,958	13,104,170,385
Less: Allowance for Bad Debts	1,874,328,561	1,601,926,738
Total	9,458,304,397	11,502,243,647
Less: Deferred Income from Housing Loan (see Note 20)	18,848,072	20,383,853
Uncollected Capitalized Interest (Note 20)	279,244,783	211,396,426
Deferred Interests from Restructured Loans (see Note 20)	381,773,867	381,773,867
Total Deductions	679,866,722	613,554,146

Loans receivable from WDs consist of 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 loan with a 26-year maximum repayment period. Special loans as well as new service connection loans carry graduated interest rates ranging from 7.5% to 9% per annum. The 2010 balance was restated from P13,104,344,910 to P13,101,802,744 due to negative adjustments made on prior year's billings of capitalized interests, costs of engineering study and design and construction supervision amounting to P2.5 million.

For loans approved starting March 10, 2009, LWUA, per LWUA Board Resolution No. 38 series of 2009, adopted new interest rates per annum under Loan Window I while extending the amortization period to 40 years, as follows:

10 years maximum = 9.2% p.a.
 20 years maximum = 9.5% p.a.
 30 years maximum = 9.8% p.a.

- (1) Receivables from water districts totaled P13,337,092,344 in 2011 and P14,958,710,120 in 2010, broken down as follows:

2011

Loans Receivable - principal			
	Current portion (see Note 7)	1,903,088,743	
	Long-term	9,961,461,453	
	Restructured	379,807,358	12,244,357,554
Accrued Interest Receivable (see Note 7)			683,630,795
Open Account Bills			405,483,444
Engineering Studies			3,038,400
Well Drilling Projects			582,151
Total			13,337,092,344

2010

Loans Receivable - principal			
	Current portion (see Note 7)	714,850,531	
	Long-term	12,010,839,612	
	Restructured	151,484,621	12,877,174,764
Accrued Interest Receivable (see Note 7)			1,127,163,823
Open Account Bills			945,733,166
Engineering Studies			518,400
Well Drilling Projects			8,119,967
Total			14,958,710,120

During the year, as part of the LWUA's clean up activities (see Note 3) and review and assessment of its loans receivables, LWUA classified loans into (a) non-

performing loans (NPLs), referring to loan accounts in arrears for at least three (3) months and (b) loans in arrears up to two (2) months (see Note 4). Based on this review, of the total loans of P12,244,357,554, – an amount of P2,832,339,293 in loan principal has been in arrears for at least three (3) months and classified as NPLs.

Related interests on these NPLs have been continuously billed and accrued and recorded as income (as these are part of the loan amortization) although remaining uncollected for several years; this amounted to P914,996,754 as at December 31, 2011; accordingly, the amount should be reversed – P257,137,652 against income for 2011, and P657,859,102 against retained earnings.

Possible adjustment in the records to effect such clean up shall be as follows (see Note 3):

	2011	2010
Income	(257,137,652)	-
Retained earnings	(914,996,754)	(657,859,102)
Interest receivables	(914,996,754)	-

Any previously billed interest that has been added to a new loan's principal as a result of loan restructuring in which restructured loan has eventually become NPL, shall be effectively written down as a result of the ensuing allowance for bad debts that will be applied to such loan account.

- (2) Similarly, related interest during construction or capitalized interests, and all project related costs like engineering design costs and construction supervision costs corresponding to these loans have also been taken up as income during the project construction although they are part of the loan amortization and therefore not yet collected.

The above is still part of the LWUA's clean up activities, which has not yet been completed to date (see Note 3).

- (3) The Board approved in 2012 an allowance for bad debts to be provided for receivables from WDs at the following rates:

In arrears, non-performing loans	75%
In arrears up to 2 months	50%
In current status	0

At the said rates of allowance for bad debts, the following provisions are computed for the receivable balances:

	Interest	Principal	Total
NPLs	686,247,566	2,124,254,470	2,810,502,036
In Arrears < 3 Mons.	5,845,041	979,334,800	985,179,841
In Current Status	-	-	-
Total	692,092,607	3,103,589,270	3,795,681,877

- (4) Certain WDs are disputing certain receivables totaling P389,387,305. The disputes pertained to construction costs, questions on construction supervision, capitalized interests and penalties.

LWUA is presently in discussions with these WDs with regard these disputed amounts and is working out reconciliations with the WDs. As part of its clean-up activities, the new Board has required a detailed review of the long outstanding loans receivables to determine if similar disputes or problems exist for other WDs. These receivables shall be accordingly restated, if necessary, depending on the resolution of the pertinent disputes.

These disputed amounts are shown under the following accounts:

Open Account Bills	358,729,117
Loans Receivables	30,658,188
Total	389,387,305

- (5) LWUA has adopted the following practices with regard to its loans receivable:

- Restructuring of water district loans;
- Imposing a 2% penalty charge on arrears by WDs with restructured accounts (LWUA is presently studying the proper accounting for this practice);
- Requiring post-dated checks to cover debt service payments by WDs requesting for additional loans or financial assistance, those extended with restructuring concessions, and those seeking clearance for outside borrowings (LWUA is presently studying the requirement for submitting one year postdated checks from all WDs to cover their loan amortization payments for one year, which shall be continually required every year);
- Adopting first-in, first-out method in the application of debt service payments by WDs;
- Requiring submission by WDs of their annual budgets to LWUA;
- On-site visits by LWUA project engineers to the projects, with report on receivable management; and
- Take-over of WDs defaulting on debt service payments. To date, LWUA has taken over the policy-making function of eleven (11) WDs, and has installed interim general managers to fourteen (14) WDs, and 6th member to the board of twenty-four (24) WDs.

LWUA will be undertaking a comprehensive receivables review and management to improve its receivables and their collection.

Similarly, related interest during construction or capitalized interests, and all project related costs like engineering design costs and construction supervision costs corresponding to these loans have also been taken up as income during the project construction although they are part of the loan amortization and therefore not yet collected.

The above is still part of LWUA's clean up activities, which has not yet been completed to date (see Note 3).

- (6) Some loans receivables from WDs are being refinanced by government banks. Total proceeds from refinancing amounted to P1.344 billion in 2011 (of which P791.402 million was received from June to December 2011 under the term of the new Board, but for which the refinancing arrangements have been negotiated and approved prior to June 2011) and P685 million in 2010. Total refinancing proceeds amounted to P6.2 billion from 2004 to 2011.

The refinancing of receivables has become a major source for LWUA's fund requirements. While still in the process of completing the review of the implications of all the transactions of previous years to LWUA's current operations and while awaiting for new funds for its projects and cash requirements, the Board has no other option but to continue some refinancing, but on a selective basis and limited scale. In this regard, the Board has issued a resolution that all refinancing proceeds shall be ring-fenced for non-operating disbursements only and to pay for the ERIP should no fund be released by the National Government for the purpose. Moving forward, LWUA is reviewing its refinancing policy, in the light of its impact to the LWUA's financial viability for the future, and to the advantage to the WDs in terms of reduced interest rates that can be availed of from refinanced loans with government banks compared to the interest rates being paid to LWUA.

- (7) The following amounts of loans receivable are used as collaterals for certain loans of LWUA from government banks:

	2011	2010
Notes and acceptances payable to Philippine Veterans Bank (see Note 14)	1,262,019,940	1,500,588,503
Long-term loans to Land Bank of the Philippines (LBP) (see Note 19)	272,460,566	864,917,044
Total	1,534,480,506	2,365,505,547

Under the terms of the loan agreements, LWUA is to assign as collateral, one year's receivables amounting to 120% of the outstanding principal of Philippine Veterans Bank (PVB) loans and 160% of the LBP loan.

- (8) Loans extended to water districts were P797,324,142 in 2011 and P880,395,455 in 2010.

The Board has approved in 2012 a capital investment program, project selection criteria, and a project disbursements schedule as basis for the grant of loans.

The project disbursements for these loans will be reviewed in connection with the review of the trust fund liabilities (Note 16)

- (9) LWUA is presently in the process of reconciling the details of its subsidiary balances with the general ledger balance for loans receivable. From a difference of about P600 million (general ledger over) when the new Board came in June 2011, the amount of difference was reduced to P41 million (general ledger over) as at December 31, 2011.
- (10) As part of its review of loans receivable account, LWUA has required the review of the reasonableness of costs of projects against related documents and their compliance with requirements for three (3) projects totaling P1 billion. LWUA has requested and is still awaiting from COA for the results of their technical audit review for these projects. Only after the completion of the review will LWUA be able to determine if there is any adjustment that needs to be proposed relative to these contracts, and if there are issues that may be pervasive for other existing contracts.
- (11) There are some collections from WDs accounts thru bank credits which are still for identification and are carried as Due to GOCCs. (See Note 15)

Restructured receivables – WDs - represent loans arrearages from WDs whose repayment were restructured or granted financial relief by way of extended payment terms thru reduced monthly payments or moratorium on payment of principal or interest for some period.

Total loans restructured amounted to P303,684,164 in 2011 and P87,134,481 in 2010. Loans restructured pertained to fourteen (14) WDs in 2011 and sixteen (16) WDs in 2010.

LWUA is presently studying its restructuring policies to ensure collectibility of the receivables and at the same time to assist the WDs in financial difficulty. It has been observed that many loans which have been restructured have not been paid and became nonperforming loans again, after which the WDs reapply again for restructuring.

LWUA is also assessing the proper accounting treatment for restructured loans, especially with regard to interest and penalty on these restructured loans.

Unbilled loans and accounts receivable – WDs represent project expenditures for which the billings have been deferred pending completion of the contract and acceptance of the project, i.e. 10% retention on contract payments.

Loans receivable – RWSA represents interest bearing long-term loans extended to various water cooperatives for the development of water supply in the rural areas. These receivables were turned over to LWUA upon absorption by the latter of Rural Waterworks Development Corporation in 1987.

Employees multi-purpose loans receivables are loans extended to officers and

employees under the LWUA multi-purpose loan program established pursuant to Section 31, Chapter 5, Title 1, Sub-title A, Book V of EO No. 292 (Administrative Code of 1981). The loan carries an interest rate of 0% for first 50% of loans availed and 4% for the next 50%, payable for a period not exceeding ten (10) years. The loans consisted of calamity, car and housing loan assistance. The program was in addition to the Employees' Provident Fund for which LWUA had provided an initial seed money. The previous Board allocated P55 million to P65 million annually for the program.

Total balance of loans extended to employees under the program was P211.70 million in 2011 and P222.85 million in 2010. Amount granted was P24.32 million in 2011 and P55.74 million in 2010. Of the balance, P7.24 million in 2011 and P6.54 million in 2010 represented receivables from separated employees and former Board members.

Noting that the disbursement for the loan was questioned by the COA as early as 2003 and not included in the DBM approved budgets for LWUA, the new Board discontinued the release of all pending applications for the loan. LWUA referred the matter to the OGCC, who came out with an opinion on the basis of the facts initially provided to them by the in-house legal counsel, which did not include the relevant material facts, i.e., that the loan has not been included in the DBM-approved budget for LWUA as subsequently certified to by the DBM, and the COA comment in their December 2003 Audit Report that the program has no legal basis, for which a reinforcement letter has been sent by COA. The OGCC was no longer able to comment on the basis of the new facts provided, because a case has been filed by an employee in court relative to the issue. Said case was filed against LWUA, two Board Trustees and the Internal Audit Manager and is presently pending in court.

With the discontinuance of some employees' benefits, LWUA suspended the collection of the multipurpose loan amortizations and related interests to ease the impact on the employees.

This may raise a concern should the employees not be able to pay their obligations.

Movements in the allowance for doubtful accounts are as follows:

TRADE RECEIVABLES - LONG-TERM

	Loans Receivable - Long-Term	RWSA in Progress	Employees Multi- Purpose Loans Rec.	TOTAL
2011				
Balance at beginning of year				
	1,600,328,363	1,598,374	-	1,601,926,737
Add : Provisions				
	1,250,704	-	3,578,699	4,829,403
Total				
	1,601,579,067	1,598,374	3,578,699	1,606,756,140
Add/Deduct: Adjustments from Clean-Up of Books	267,572,421	-	-	267,572,421
Balance at end of year				
	1,869,151,488	1,598,374	3,578,699	1,874,328,561
2010				
Balance at beginning of year				
	1,525,441,368	1,598,374		1,527,039,742

Add : Provisions	74,886,996	-	74,886,996
Balance at end of year	1,600,328,364	1,598,374	1,601,926,738

Legend (see Note 3):

1) *Loans Receivable – Long-Term – Possible loss on non-performing loans*

11. LONG-TERM INVESTMENTS

This account includes:

	2011	2010
Advances to Express Savings Bank, Inc.	400,000,000	400,000,000
Investments in Bonds	70,220,363	341,126,721
Investments in Subsidiaries	80,003,070	80,003,070
Advances to LWUA Consult, Inc.	31,655,558	31,655,558
Long-Term Investments	581,878,991	852,785,349

The accounts consist of the following:

- a. Advances to ESBI of P400,000,000 represent the advance payment by LWUA to ESBI for capital stock subscription - In order to meet the requirements imposed by the Bangko Sentral ng Pilipinas (BSP), as part of ESBI's rehabilitation program, the LWUA Board of Trustees, in its Resolution No.336 dated August 17, 2009, approved advance payment to ESBI for stock subscription amounting to P400,000,000; and on August 25, 2009, a 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 recorded by LWUA as an advance payment for capital subscription, thus increasing the capital of ESBI. ESBI issued Official Receipt No. 56928 acknowledging receipt of the P400,000,000.
- b. Investment in ESBI of P80,003,070 represents payment by LWUA for the sixty percent (60%) of the total issued and outstanding common shares of ESBI, a private banking institution currently under a BSP-administered rehabilitation, which LWUA purchased in June 2009. LWUA paid P80,003,070 for the 445,377 shares to the various owners of these shares. The former Board defended LWUA's decision to operate a quasi bank, to be later named as the Water and Energy Bank, as anchored on the following grounds:
 - Under Section 14 of BSP Circular No.51 dated October 14, 1994, implementing RA 7721, LWUA may own up to sixty percent (60%) of the voting stock of a domestic bank; and
 - Pursuant to the legal opinion from the OGCC dated September 23, 2009 whereby it cited Sections 50,59and 71of PD 198 LWUA has been favored to invest /create a subsidiary and such act is within its Charter to do so.

As stated in Note 13, LWUA has also P300 million cash deposits maintained at ESBI, which amount is carried at LWUA's books at P304 million in 2011 and

P303 million in 2010, including interest. The PDIC has taken over the operations of ESBI in 2011.

COA has claimed that LWUA made investment / deposit of P780 million in ESBI in contravention of BSP Monetary Board Resolutions disallowing transfer of 60% share in ESBI and directing ESBI to return all government deposits from various government agencies. The amount of P780 million pertained to: (a) P80 million purchase price paid to various stockholders for 60% of ESBI's total shares; (b) P400 million advance payment for capital stock subscription to ESBI's increase in authorized capital stock to comply with BSP requirement for quasi-banking authority, while pending approval by BSP and registration with Securities and Exchange Commission (SEC) of amended articles of incorporation; and (c) P300 million cash deposit at ESBI. COA has issued NDs for P780 million in August 2011 for these investments / deposits in ESBI.

The DOF has filed a case against LWUA officials involved in the transaction, while the PDIC has filed for the formal liquidation of ESBI. LWUA is now the major creditor / stockholder of ESBI.

LWUA is presently coordinating with PDIC as to the possible amount that LWUA can recover from its deposits and investments/advances. LWUA has estimated based on discussions with the PDIC that it may recover 50% of the deposits and investments / advances. The ESBI is now under liquidation; no amount has been set for possible losses until the amount is readily determined when ESBI liquidation is completed.

c. Investments in Bonds (P70,220,363 in 2011 and P341,126,721 in 2010)

This account represents placements in Agrarian Reform (AR) bonds, with interest rates aligned with those 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. A total of P21,498,105 in 2011 and P 30,674,653 in 2010 of the AR bonds were redeemed.

Bonds totaling P106,396,614 in 2011 and P114,184,706 in 2010 are used to collateralize loans to LBP totaling P116,640,000 in 2011 and P516,626,667 in 2010.

d. Advances to LCI, a wholly-owned subsidiary (P31,655,558)

The account consists of a P31,250,000 deposit made by LWUA to LCI's account as paid up capital of LWUA, based on LWUA Board Resolution Nos. 609 authorizing the deposit with ESBI, Cabuyao Branch and the P405,559 represents the liquidation of cash advance for the registration/ incorporation of LCI with the SEC.

LCI was created through LWUA Board Resolution Nos. 152 dated June 30, 2009, 360 dated August 25, 2009 and 608 dated November 10, 2009. LCI's certificate of Incorporation was duly registered with the SEC on December 7, 2009 under

Registration No. CS 200918943. LWUA claims that as a duly incorporated entity, LCI is distinct from LWUA as it has its own corporate structure although dependent on LWUA for policy direction. As a wholly-owned subsidiary of LWUA, LCI 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. COA has questioned LCI's existence as it has the same objective as LWUA. Also, certain LWUA officials and employees have been concurrently detailed in LCI.

LCI incurred P18.59 million loss in 2010, primarily due to the payments of allowances and benefits to LWUA officials and employees concurrently detailed in LCI amounting to P17.2 million, and P1.5 million loss in 2011. LCI based on its internal financial statements as at December 31, 2011 showed Total Assets of P15 million basically representing Receivables from WDs and for well drilling projects and well drilling costs; with Unearned income of P3 million shown as noncurrent liabilities; and P19.3 million Deficit.

The new Board recalled all LWUA employees working at LCI as at July 1, 2011; and temporarily suspended LCI's operations and transferred all existing contracts to LWUA, while awaiting formal decision as to what to do with LCI. The new Board also required a full accounting of LCI operations in 2011 to determine realizable value of LWUA's investment and of all LCI contracts transferred to LWUA. This has not been completed to date.

A case was filed in court by LWUA employees' union against officials of LWUA for the creation of LCI (see Note 29). In addition, the COA has commented on the issue of double compensation paid to LCI employees who are also LWUA employees in its 2010 report. The corporate operating budgets of LCI for both 2011 and 2010 had not been approved by the former LWUA Board. The investment in LCI is under study by the new Board.

LWUA will record its possible losses on this investment upon completion of audit of LCI's financial statements for 2011.

12. PROPERTY, PLANT & EQUIPMENT

The roll forward analysis of this account follows:

	Land Improvement	Building & Improvement	Furniture & Office Equipment	Engineering & Laboratory Equipment	Other Equipment	Total
CY 2011						
COST						

	Land Improvement	Building & Improvement	Furniture & Office Equipment	Engineering & Laboratory Equipment	Other Equipment	Total
At January 1	1,664,620	190,691,572	132,952,858	128,284,414	73,064,433	526,657,897
Additions		7,450,857	155,964,075	1,989,473	1,779,072	167,183,477
Transfers			(29,273)	(1,511,408)	(1,028,412)	(2,569,093)
Reclassification to other assets			(136,632,000)			(136,632,000)
Disposals			(7,284,157)	(209,805)		(7,493,962)
At December 2011	1,664,620	198,142,429	144,971,503	128,552,674	73,815,093	547,146,319
Accum. Depreciation						
At January 1		66,331,768	83,141,391	98,828,194	50,738,851	299,040,204
Depreciation		4,989,505	30,177,562	3,824,383	7,759,882	46,751,332
Disposals			(6,555,742)			(6,555,742)
At December 2011	-	71,321,273	106,763,211	102,652,577	58,498,733	339,235,794
Net (Book Value At December 2011)	1,664,620	126,821,156	38,208,292	25,900,097	15,316,360	207,910,525
CY 2011						
COST						
At January 1	1,664,620	147,815,715	129,591,065	109,563,567	68,214,280	456,849,247
Additions		43,969,493	5,671,865	18,939,266	17,449,119	86,029,743
Transfers			168,650		84,000	252,650
Disposals		(1,093,636)	(2,478,722)	(218,419)	(12,682,966)	(16,473,743)
At December 2010	1,664,620	190,691,572	132,952,858	128,284,414	73,064,433	526,657,897
Accum. Depreciation						
At January 1		62,637,131	69,183,907	97,997,627	45,532,211	275,350,876
Depreciation		4,678,909	16,186,623	1,027,144	8,276,556	30,169,232
Disposals		(984,272)	(2,229,139)	(196,577)	(3,069,916)	(6,479,904)
At December 2010	-	66,331,768	83,141,391	98,828,194	50,738,851	299,040,204
Net (Book Value At December 2010)	1,664,620	124,359,804	49,811,467	29,456,220	22,325,582	227,617,693

Included in the account are the following:

- a. Cost of LWUA's Information Systems Strategic Plan (ISSP) of about P200 million, which started in 1997 and which would have been completed in 1999, but for which only 2 applications out of 15 were being fully utilized, five not being utilized, while others being partially utilized; no formal acceptance has yet been made on these applications. The ISSP was developed thru the Japan Bank for International Cooperation (JBIC) with the assistance of a consultant.

The new Board has created a team to work on the issue, but to date, no definite action plans have yet been developed. LWUA referred the matter to the OGCC who advised LWUA to "conduct an assessment of the supervening events including correspondences between LWUA and NJS/CEST which transpired following the submission of the (ISSP Task Force) recommendations. A re-assessment of NJS/CEST's performance and delivery of the remaining project activities should also be conducted to determine whether or not the circumstances that lead to ISSPTF's recommendations are still existent. It is likewise suggested that the other provisions of the Contract be reviewed particularly those that may imply a possible review by LWUA of its rights to assail the delays in the performance of the activities and delivery of the manuals and transfers." The OGCC further advice that "after such re-assessment, and it is determined that indeed that NJS/CEST breached its obligations, LWUA may implement the ISSPTF's recommendations invoking the provisions of the Contract or suspension and termination and initiate legal action to recover LWUA's exposure on the project."

- b. Expenditures for which some questions have been raised relative to manner of acquisition and adequacy of documentations. These include the renovation of the LWUA dormitory for a total amount of P39.47 million; purchase of rubber boats for P2.4 million; ambulance for P1.2 million; and mobile water filtration equipment for P15 million.

Relative to the LWUA dormitory, questions had been raised relative to the documentations for the cost estimates; these have been referred to the legal counsel for discussions with the contractor.

With regard to the mobile water filtration equipment, LWUA has allowed their use by the LWUA disaster team With regard to the mobile created by the new Board in Mindanao which was heavily damaged by earthquake and typhoon in late 2011. The new Board also approved the temporary assignment of the rubber boats to the following WDs based on their requests: Calumpit; San Fernando, Pampanga; and Metro Iloilo.

LWUA also required a review of LWUA's policies on acquisition of property and equipment to ensure no future breakdown in the system which will allow similar purchases. LWUA is still in the process of reviewing the reconciliation of LWUA's property and equipment based on physical count against LWUA records. An

adjustment shall be made if necessary upon the completion of such reconciliation.

13. OTHER NON-CURRENT ASSETS

This account consists of:

	-	2011	As Restated 2010
Deferred Tax Assets, Net		703,423,205	280,437,932
Deferred Engineering Study Cost		70,418,397	43,121,547
Restricted Funds		360,608,682	379,990,799
Deferred Well Drilling Cost		-	970,000
Other Deferred Charges		14,571,993	14,301,519
Receivable from Water Districts-PSF		2,362,358,310	2,343,413,706
Other Assets		136,632,000	-
Total		3,648,012,587	3,062,235,503
Less: Deferred Income from Feasibility Study and Design/ Construction Supervision (see Note 20)		157,694,704	157,694,704
Other Non-Current Assets, Net		3,490,317,883	2,904,540,799

Deferred engineering study costs refer 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 receivable account. (see Note 4) Compared to 2010, the increase represents loan drawdown under yen package JBIC P181.

Restricted Funds account pertains to: (a) the P300 million cash deposits with the ESBI now carried in the LWUA books at P304 million in 2011 and P303 million in 2010 to include interest, (b) P55 million cash deposits with the Land Bank of the Philippines (LBP) and the Philippine National Bank (PNB), and c) P2 million Water District Deposit Portfolio (WDDP) cash deposits in 2011 and P75 million in 2010 which were earmarked for specific water supply projects and not available for in-house disbursement operation (see Note 6).

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 receivable account when billed and to well drilling expense account when 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.

Receivables from WDs – PSF

- 1) This pertains to financial assistance extended and released by LWUA to various WDs through its Non-LWUA Initiated Fund (NLIF) program since 2009. These releases were covered by a Memorandum of Understanding (MOUs) with the recipient WDs which provide for a 50% loan and 50% grant mix, to increase up to 90% grant depending on the loan evaluation after the completion of the project. The 50% loan bears 0% interest payable over a term ranging from 26 to 40 years. The NLIF refers to the funds allotted for non-LWUA initiated projects where LWUA shall merely be an implementing agency through which these funds shall be coursed in favor of local WDs.

Based on the “verbal” commitment of funding from the Office of the President-President’s Social Fund (OP-PSF) that it will release P6.0 billion for these water supply projects, LWUA implemented the NLIF program using its corporate funds. In turn, LWUA shall replenish its corporate funds out of the PSF upon its release to LWUA. However, no funds were released in favor of LWUA. Based on a subsequent confirmation from the Office of the President, there is no such fund for the purpose.

The OGCC has rendered an opinion (Opinion No. 219 series of 2011 dated October 10, 2011), as follows: Although a conduit for implementation of the National Government initiated projects, LWUA should not use its corporate funds, that the partial releases made to the WDs using corporate funds under the NLIF program, where LWUA should have acted merely as implementing agency, are not legally in order. Since the source of funds is not the NLIF, LWUA cannot treat the partially released amounts to specific local WDs on a 50%-50% grant loan mix under the NLIF program as envisioned. Persons who processed, approved and certified the existence of PSF funds and released such amounts may be held responsible. The MOUs entered by LWUA with the WDs where no funds were initially released are considered “void” and that grants to WDs can not be paid out of LWUA’s internally generated funds. The legal impossibility of delivering the funds which were supposed to be sourced from NLIF makes the contract void.

Since 2009, COA has recommended that LWUA recover funds released; otherwise, to make persons responsible for disbursements without authority to charge it from non-existing fund be held liable.

Following were actions taken relative to the fund releases:

- a) LWUA made a detailed review of the PSF transactions including validation of subsequent adjustments made to the transactions; there was no Certificate of Availability of Funds used for the disbursements but a form called Budget Allocation Clearance.
- b) The Board issued a Board resolution to adopt the OGCC opinion and to convert the grant portion of funds released into a soft loan at 2% interest.

- c) A letter was sent to all the WDs affected to inform them of the status of the PSF releases and the OGCC opinion, as well as the Board resolution.
- d) LWUA management started to initiate talks with the WDs to explain LWUA stand.
- e) Two new draft contracts were prepared: one to replace the MOUs for the previous fund releases, and one to cover the subsequent fund releases to the affected WDs.
- f) The Board required a review of all the program of works and proper loan evaluation for all projects covered by PSF releases. For priority projects, the Board required technical evaluation of the projects' physical accomplishment to determine additional cost needed to complete the projects and identify possible fund sources.
- g) No further releases shall be made on the PSF projects until the WD would agree to replace the grant portion with a soft loan with the balance becoming an ordinary loan at regular interest.
- h) A detailed review of the PSF projects is being undertaken to determine which are those projects where there are problems on water source development, and those projects which can be sourced from the subsidy grant by DOH and other agencies. Those projects with problems on water source development need not be given further fund releases; as there could be a problem on collectibility. Those projects properly included in the DOH listing may be sourced from the trust funds received from DOH provided funds are available, and after legal implication is cleared with COA. LWUA is still in the process of completing this review; adjustments shall be made once the review is completed.
- i) The Board has approved prioritization policy for subsequent fund releases for PSF projects, e.g. percent of completion of the project so as to fast track the completion of the project and thus enables LWUA to collect.
- j) LWUA has referred the matter to proper government authorities for investigation and appropriate action.

Major concerns relative to the PSF fund releases are the following:

- a) Collectibility / realizability of the funds released – LWUA management based on its assessment and evaluation has made a conservative estimate of 90% loss provision on the amount, primarily because of the wording of the contract. As talks are still being held with WDs, adjustments for any possible loss provision will be deferred until after LWUA has come up with some reasonable estimate for such loss to be provided. (Note 3)
- b) Possible interest accrual on the fund releases while revised contracts are being discussed.

- c) Total fund releases of P2.347 billion pertain to programs of work or project costs totaling P6 billion. This means that LWUA would need additional funding of about P3.7 billion to finish off all these projects and thus be able to get principal repayment and interest payment from the releases. If these projects in progress will not be funded and completed, the Company will not be able to get a return of the principal amount of the releases and may lose not only possible interest income but also the principal amount. (Note 3)
- 2) Included in the account is the cost of 100 units portable water quality testing equipment amounting P109.9 million. Based on the original documents supporting the disbursements in 2009, the purchase was charged to trust liabilities - PSF using the LWUA equity fund; in 2010, inasmuch as there was no PSF fund for the purpose, the amount was reclassified for recording purposes to Miscellaneous receivable – NG it being included in the LWUA Procurement Program for 2009. The amount is now carried as Receivables from WDs-PSF.

The portable water quality testing equipment was distributed to various WDs as financial assistance, at a unit cost of P1.1 million each and at 80% grant and 20% loan mix at 0% interest payable over 3 years. Similar to the other PSF fund releases, there was no loan evaluation procedure.

COA noted, among others, that the procurement was a negotiated procurement not supported with adequate funds and charged against the non-existent PSF as the funding source. Some 35 units costing P38 million were confirmed by the WDs as not being used, due to lack of funds to pay LWUA; defective units and expired chemicals; lack of laboratory room and chemist in WD to do water testing; and result of water testing not acceptable to DOH.

The loan portion (20%) of the releases amounting to P16.72 million was recorded as Loans Receivable – WDs; this was reclassified to Miscellaneous Receivables – WDs.

There were attempts to include the purchase cost of the equipment in the list of DOH fund grant to LWUA which would have increased the DOH subsidy from P1.5 billion to over P1.6 billion, but DBM clarified that the DOH fund was only P1.5 billion. LWUA will formally obtain a confirmation from DOH as to whether the amount for the equipment was sourced from the DOH funds.

With regard to the complaints raised by the WDs on the equipment, COA has recommended that LWUA require the equipment supplier to address these complaints. The Board is still awaiting a formal report from Management in this regard.

LWUA referred the issue to OGCC; and based on OGCC's opinion:

- Contract entered into with no actual appropriation and available funds is void from the very beginning.

- Subsequent change in source of funds, after contract has been executed and obligation settled, did not cure the defect. Requisites in entering government contracts should be complied with prior to entering the contract.
- Notwithstanding change in the process from negotiated procurement to public bidding, contract is still considered void from the beginning.
- Officers who entered into the contract knowing that no funds were appropriated shall be liable to the Government or other contracting party for any consequent damage to the same extent as if the transaction had been wholly between private parties.
- The change in source of funding midstream, when the contract was already entered into did not palliate the malady and will not make the contract valid.
- Similar to the PSF issue, transactions with the WDs have to be covered by revised contract.

In the light of the repeated attempt to pass off the portable water quality testing equipment as to be funded from the DOH funds, the Board required Management to validate the DOH funds for 2009 and 2010 in order to ensure that any findings made by COA on DOH records agree with LWUA records.

A complaint has been filed against LWUA officials involved in the procurement of the portable water quality testing equipment.

Other Assets in 2011 substantially represents the downpayment of P136.632 million made in April 2011 on the GIS purchased under a direct contracting agreement in February 2010 for a total amount of P223.88 million (consisted of delivery of software for P183.8 million, hardware for P11.1 million and service for P5 million, plus taxes of P24.0 million). To date, LWUA has not made formal acceptance of these deliveries.

COA has raised questions relative to the IT consultant who recommended the award through direct contracting as he did not pass the recruitment and hiring process required under RA 9184, and that the consultant had no contract with LWUA; also, that the contract being of such a significant amount did not undergo a review of the National Computer Center (NCC). The LWUA official who has control over LWUA's computerized operations claimed that the GIS contract was entered without his knowledge.

LWUA has not made formal acceptance of the deliveries. Due to the issues, no further deliveries had been made on the contract, and no liability has also been set up for the difference in the contract price. No demand has also been made by the supplier for the unpaid amount.

An adjustment was made in the books to reclassify the downpayment made on the contract from Property and equipment account to Other Asset, and for reversal of the amount of previously recorded depreciation.

LWUA has also submitted the documentary evidence on the contract, together with all legal documents including information on the supplier, to the proper authorities for investigation. The issue has also been referred to COA.

No additional adjustment for possible losses has yet been made on the contract pending the results of the final investigation on the issue.

14. ACCOUNTS PAYABLE

This account consists of:

	2011	As Restated 2010
Notes and Acceptances Payable	379,200,000	1,000,000,000
Interest Payable	34,267,359	43,165,780
Payables - Unliquidated Obligations	70,446,093	31,605,611
Payable to Officers and Employees	54,089	37,743
Total Accounts Payable	483,967,541	1,074,809,134

Notes and acceptances payable pertain to the outstanding balance of short-term loans with the PVB. The loan is being 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 (see Note 7). During the year, LWUA paid off P120.8 million loans to PVB.

Interests payable are interests accruing on foreign and domestic loans availed of, specifically, to finance the development of water supply systems projects. The account also includes interest due on WDs reserves deposits. The 2010 balance was restated from P140.22 million to P43.16 million due to significant adjustment in interest payable under ADB, JBIC and USAID loan packages as against the actual interest payments.

Payable – unliquidated obligations refers to unpaid obligations for which goods and services have already been delivered and/or rendered and ready for payment. The 2010 balance was restated from P58.25 million to P31.60 million due to adjustments made as a result of evaluation of the validity of setting up these payable accounts.

Payable to officers and employees pertains to unclaimed employees' remunerations as of balance sheet date. The 2010 balance was restated from P5.51 million to P0.038 million as a result of adjustments made after the evaluation of the validity of these payable accounts.

15. PAYABLE TO GOVERNMENT AGENCIES

This account consists of amounts:

	2011	2010
Due to Government Owned and Controlled Corporations (GOCCs) ^{1/}	60,794,942	168,796,130
Due to Bureau of Internal Revenue (BIR)	3,174,276	54,663,236
Total Payable to Government Agencies	63,969,218	223,459,366
Less: WDs Loan Remittances Offset Against Receivable (see Note 7)	52,898,346	164,716,175
Payable to Government Agencies, Net	11,070,872	58,743,191

^{1/} For possible offsetting against WDs Receivable while unidentified collection are for verification

Due to GOCCs pertains to collections of loans from WDs thru bank credits as well as employees' loan remittances for eventual payment to Government Service Insurance System (GSIS) and PAG-IBIG. This WDs' debt service is carried under this account while still in process of identifying the WDs accounts to which these pertain. For financial statements presentation, the amount of P52.9 million was offset against receivables from WDs. (See Note 7)

Due to BIR pertains to the amount of income tax and tax withheld from contractors/suppliers and employees for remittance to the BIR. Compared to 2010, the decrease was due to payment of taxes during the year.

16. OTHER CURRENT LIABILITIES

This account consists of:

	2011	As Restated 2010
Loans Payable, Current - Government Of the Philippines (see Note 17)	207,619,133	138,539,256
Loans Payable, Current - Foreign (see Note 18)	288,493,078	274,526,857
Loans Payable, Current - Local (see Note 19)	158,320,000	91,653,333
Guaranty Deposits Payable	71,671,293	60,933,985
Dividends Payable	1,130,820,000	1,130,820,000
Other Payables	1,730,422,944	1,685,034,472
Total Other Current Liabilities	3,587,346,448	3,381,507,903

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.

Dividends Payable represents the amount due to the National Government in accordance with the existing provisions of Republic Act (RA) No. 7656, particularly Section 3 thereof which provides in part, viz: "all government-owned and controlled corporations shall declare and remit at least fifty percent (50%) of their annual net earnings as cash, stock or property dividends to the National Government".

The amount of P1,130.82 million shown in the financial position pertained to the following:

YEAR	NET INCOME	ADJUSTED INCOME	APPROVED DIVIDEND RATE	DIVIDENDS DUE TO N.G.	DIVIDEND REMITTANCE	OUTSTANDING BALANCE
2010	236.22	424.80	50%	212.40	-	212.40
2009	69.30	344.03	50%	172.02	-	172.02
2008	368.41	671.86	50%	335.93	-	335.93
2007	123.43	716.32	50%	358.16	50.00	308.16
2006	449.24	572.50	24%	137.40	137.60	(0.20)
1998/99 & 2001	284.81	321.01	50%	160.51	58.00	102.51
TOTAL				1,376.42	245.60	1,130.82

* amount in million peso

LWUA did not declare dividend in 2011; no dividends were also declared in 2008 to 2010 in view of the LWUA's pending request with DOF for exception from dividend remittances because of its dire need for huge capital to finance its projects. LWUA, however, recorded as prior years' adjustment an amount of P1.130 billion as dividends due up to December 31, 2011.

In January 2012, LWUA received a letter from the DOF following up on dividend payments from LWUA. LWUA sent a letter to the DOF requesting for a deferment of discussion on dividend payments due the national government until after (i) completion of COA's full and special audit, and (ii) LWUA's financial health shall have been fully restored.

LWUA will effect a re-computation of its dividends due after all the adjustments in its clean-up activities have been properly recorded, especially those pertaining to income tax.

Other Payables refer to amounts received in trust by LWUA such as:

- a) government subsidy support fund for the development of various water supply system projects thru the DOH and the DPWH.
- b) Amou
- c) nts received from various WDs on a voluntary basis for safekeeping and investments in line with LWUA's mandate to act as a depository of the reserve funds of the WDs.
- c) PROFUND loan payments deducted from employees' payroll,
- d) debt service payments advanced by the Bureau of Treasury, and

e) miscellaneous payables.

Details of the account follow:

	2011	As Restated 2010
Liability for Special Funds	1,712,016,938	1,507,931,758
Depository Liability - WDRD	95,656,105	154,358,295
Advances by the Bureau of Treasury	(88,489,114) ^{1/}	(2,037,300)
Trust Liability - Profund	2,423,346	8,091,289
Payable - Miscellaneous	8,815,669	16,690,430
Total Other Payables	1,730,422,944	1,685,034,472

1/ Negative balance represents excess debt service payments for JBIC P124

Trust funds to be accounted for include the following: (1) reserve deposits from WDs; (2) DOH subsidy of P375 million in 2010 intended for supply of potable water to waterless municipalities as per MOA by and among DOH, LWUA and DBM and acknowledged by LWUA per Official Receipt No. 252533; (3) DOH subsidy support for 2009; (4) DOH subsidy support in 2008; (5) DPWH subsidy support; (6) the P300 million given to LWUA in 2008 for the Water Supply and Sanitation Project Development Efficiency and Improvement; (7) the National Government budgetary support of P400 million in 2009 intended to be transferred to WDs for implementation of projects, which COA in its previous reports has recommended to be immediately transferred to intended beneficiaries in accordance with conditions of the General Appropriations Act provisions; (8) Priority Development Assistance Fund (PDAF) funds; and (9) DBM special subsidy. (See Note 6)

The new Board has required a full accounting of all trust funds received. Until such full accounting is made, LWUA will not be in a position to determine how much of the trust funds received have been utilized for purposes other than for the specific purpose or projects for which the funds were given. Moving forward, as mentioned in Note 6, in 2012, the new Board issued a directive that all trust funds received be kept in separate funds and restricted for use in specific projects for which they were given.

As part of the review of trust fund liabilities, the Board has also required all project disbursements to be properly verified against Board - approved list of projects, and against approved / authorized list of disbursements by grantor agency and LWUA Board; and formal confirmation of details (projects and amounts) with grantor agencies and any deviations or changes from the original list. LWUA is still preparing the details of actual project disbursements totaling P673 million for the year 2011 (P1,880.0 million in 2010).

Adjustments will be taken up in the books after full accounting of all the trust funds received and after completion of the review of project disbursements.

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

Loans Payable – Government of the Philippines (GOP) are loans executed by and

between the Republic of the Philippines (RP), as borrower and the foreign lending banks, as lender. Subsidiary loan agreements were executed by and between LWUA, as implementing agency or one of the implementing agencies and sub-borrower, and the RP, as the sub-lender to LWUA. The 2010 balances as previously reported were restated to recognize the effect of foreign exchange adjustment bringing the foreign currency loan balances at exchange rates prevailing as at December 31, 2010.

This account consists of:

	2011	As Restated 2010
United States Agency for International Development		
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	113,822,208	140,164,490
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	165,593,559	192,820,111
Asian Development Bank (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	426,122,982	463,456,363
ADB 1057-PHI - US\$2.7M		
At 10% per annum payable in 20 annual installments of US\$101,800 starting February 15, 1995, increasing thereafter, up to August 15, 2014	29,778,724	44,017,036
ADB 1599 - US\$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 November 15, 2022	11,058,210	11,047,386
International Development Association (IDA) 920-PHI - US\$14M		
<i>At 0.75% service charge per annum payable in 40.5 annual installments of US\$96,086 starting August 15, 1989, increasing thereafter up to February 15, 2029</i>	31,475,978	38,855,382
Overseas Economic Cooperation Fund (OECF) PH-P 82 - ¥0.945B		

At 8.7% per annum payable in 20 annual principal payments of ¥46,110,000 starting January 20, 1998 to January 20, 2018	85,764,922	94,549,880
OEFC PH-P124 - ¥0.789B		
At 9% per annum payable in 20.5 annual principal payments of ¥38,468,000 starting April 20, 2000 to April 20, 2022	95,254,310	26,437,695
OEFC PH-P149 - ¥6.212B		
At 4.9% per annum payable in 20.5 annual principal Installments of ¥151,520,000 starting December 20, 2004 to December 20, 2024	821,482,171	844,031,495
French Protocol - €24M		
At 3% Treasury Loan per annum payable in 30 annual installments of €1,313,933.60 starting December 31, 1990 to December 31, 2020	52,431,632	58,788,941
Total	1,832,784,696	1,914,168,779
Less: Current Portion (see Note 16)	207,619,133	138,539,256
Loans Payable - Government of the Philippines Net of current portion	1,625,165,563	1,775,629,523

The movements in debt issue costs follow:

	2011	As Restated 2010
	<i>(In Millions of Php)</i>	
Balance at the beginning of the year	1,914	2,213
Foreign exchange rate adjustment	127	(117)
Addition	-	-
Amortization	(208)	(182)
Balance at end of year	1,833	1,914

The scheduled maturities of the long-term debts at nominal values as of December 31, 2011 are as follows:

	Amount <i>(In Millions of Php)</i>
2012	149
2013	153
2014	157
2015	146
2016	143
2017 and onwards	1,085
Total	1,833

LWUA is still in the process of reviewing all the loans payable for compliance with repayment schedules and is still awaiting confirmation replies from the foreign creditors.

18. LOANS PAYABLE – FOREIGN

Loans payable – foreign represent loans received through loan agreements executed by and between LWUA as borrower and the foreign lending banks as 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. The 2010 balances as previously reported were restated to recognize the effect of foreign exchange adjustment bringing the foreign currency loan balances at exchange rates prevailing as at December 31, 2010.

This account consists of:

	2011	As Restated 2010
ADB 1269-PHI - US\$21.1M		
At interest based on the cost to the bank of such currencies plus spread which ranges from 6.3% to 6.7% per annum payable in 20 annual installments of \$733,100 starting March 1, 1999 increasing thereafter, up to September 1, 2018	513,287,617	561,593,215
ADB 1472-PHI - US\$45M		
At 6.79% per annum payable in 20 annual installments of \$848,500 starting March 1, 2002 increasing thereafter, up to September 1, 2021	790,308,713	833,969,643
OECF PH-P154 - ¥6.131B		
At 2.5%, Principal (I) and 2.1% Principal (II) per annum payable in 20 annual installments of ¥149,600,000 on August 20, 2005 and ¥299,070,000 from February 20, 2006 through August 20, 2025	738,219,423	753,913,086
OECF PH-P181 - ¥7.228B		
At 2.5%, Principal (I) and 2.1% Principal (II) per annum payable in 20.5 annual installments of ¥176,320,000 on March 20, 2007 and ¥352,584,000 through March 20, 2027	1,797,468,577	1,813,396,133
Australian Aid - US\$14.800M		
At 2.25% per annum payable in 9.5 annual installments of \$740,000 starting July 15, 2001 to July 15, 2011	-	2,693,662
Kreditanstalt Fur Weideraufbau - Provincial Towns Water Supply Project (KFW PTWSP) I & II - €14.700M		
At interest rate of 3% p.a. below the interest rate for the WDs payable in 60 semi-annual installments starting June 30, 2010 to December 30, 2039	774,965,296	823,743,792
KFW PTWSP III - €10.200M		
At 0.75% p.a. payable in 60 semi-annual installments starting December 30, 2019 to June 30, 2049	8,526,420	-

4 789 309 531

Total	4,622,776,046	4,789,309,531
Less: Current Portion (see Note 16)	288,493,078	274,526,857
Total Loans Payable - Foreign	4,334,282,968	4,514,782,674

The movements in debt issue costs follow:		As Restated
	2011	2010
	<i>(In Millions of Php)</i>	
Balance at the beginning of the year	4,789	5,281
Foreign exchange rate adjustment	115	(209)
Addition	9	60
Amortization	(290)	(343)
Balance at end of year	4,623	4,789

The scheduled maturities of the long-term debts at nominal values as of December 31, 2011 are as follows:

	Amount <i>(In Php Millions)</i>
2012	271
2013	279
2014	287
2015	296
2016	306
2017 and onwards	3,184
Total	4,623

LWUA is still in the process of reviewing all the loans payable for compliance with repayment schedules and is still awaiting confirmation replies from the foreign creditors.

19. LOANS PAYABLE – LOCAL

Loans payable – local consist of term loans from the following:

	2011	2010
Philippine Veterans Bank (PVB)	450,000,000	
Land Bank of the Philippines (LBP)	116,640,000	516,626,667
Total	566,640,000	516,626,667

The current PVB is a five-year term loan of P508,320,000 to be used exclusively to finance liquidity gapping requirements for debt servicing and to sustain LWUA's lending requirements. It bears an interest of 6.8422% per annum payable in 20 equal quarterly amortizations starting July 4, 2011.

The LBP loans are collateralized by assignment of LWUA's Trade Receivables to the

extent of 80% and of LWUA's Investment in AR bonds to the extent of 20%. (see Note 11)

The LBP term loans consist of:

	Outstanding Balance	
	2011	2010
2 nd Tranche	-	341,666,667
3 rd Tranche	116,640,000	174,960,000
Total Loans Payable	116,640,000	516,626,667
Less: Current Portion		
2 nd Tranche	-	341,666,667
3 rd Tranche	58,320,000	58,320,000
Total Current Portion	58,320,000	399,986,667
Loans Payable - Local, net of current portion	58,320,000	116,640,000

1st Tranche – P500,000,000

This Term Loan of P500 Million carries an interest rate equal to deposit rate plus 4% spread, subject to quarterly repricing but in no case shall the rate be lower than 10% per annum. It is payable in 20 equal quarterly amortizations. The loan was availed of in one single drawdown. This was fully repaid in 2009.

2nd Tranche – original amount of P500,000,000, with interest at bank's prime lending rate plus 2% spread, subject to quarterly re-pricing no lower than 9.5% per annum, but reduced to 8.5% per annum starting April 2010 upon LWUA's request to LBP; repayable in 20 equal quarterly amortizations starting at end of 8th quarter from initial drawdown date, with balloon payment upon maturity; full amount of loan availed of in 2004 in five (5) drawdowns; fully paid in 2011.

Details of availment and repayments follows:

DATE	AVAILMENT	REPAYMENT	BALANCE
2004	P 500,000,000	P	P 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		341,666,667	-

3rd Tranche – original amount of P500,000,000 million, but only P291,600,00 million availed of in two (2) drawdowns - one in 2006 and another in 2007; with interest rate equivalent to LBP's prime lending rate plus 2% spread, subject to quarterly repricing but no lower than 9% per annum, but reduced to 8% per annum starting April 2010 upon LWUA's request to LBP; repayable in 20 equal quarterly

amortizations starting at end of 9th quarter from initial drawdown date on the first quarter of 2006.

Details of availment and repayments follow:

DATE	AVAILMENT	REPAYMENT	BALANCE
2006	220,000,000		220,000,000
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 2011 loans

The movements in debt issue costs follow:

Write-off	-	-
Addition	400	-
Amortization	(450)	(91)

The scheduled maturities of the long-term debts at nominal values as of December 31, 2011 are as follows:

	Amount (In Millions)
2012	196
2013	234
2014	176
2015	176
2016	6
2017 and onwards	38
Total	826

LWUA is still in the process of reviewing all the loans payable for compliance with repayment schedules and is still awaiting confirmation replies from creditors.

20. DEFERRED CREDITS

This account consists of:

Deferred Income from Feasibility Studies

(FS) & Construction Supervision (CS)	157,694,703	157,694,703
Deferred income from housing loan	18,848,072	20,383,853
Unearned Income from well drilling contracts	3,948,528	10,348,233
Unearned Income from engineering study	708,702	708,702
Total	1,066,010,703	782,305,784

Less: Interest on NPLs offset against Interest Receivables (see Note 7)	223,792,048	-
Capitalized Interests offset against Long-Term Receivables (see Note 10)	279,244,783	211,396,426
Interest on Restuctured Loans offset against Restructured Rec. (see Note 10)	381,773,867	381,773,867
Deferred Income from FS and CS offset against Misc. Receivables - Water Districts (PSF) (see Note 13)	157,694,703	157,694,703
Deferred Income from Housing Loan offset against Loans Receivables - Officers and Employees (see Note 10)	18,848,072	20,383,853
Total Deductions	1,061,353,473	771,248,849
Deferred Credits, Net	4,657,230	11,056,935

Deferred income from housing loan are interests on loans extended to LWUA officers and employees under the multi-purpose loan program. (see Note 10)

Unearned income from well drilling contracts refers to the projected income from well drilling projects.

Unearned income from engineering studies pertains to the contract costs of WD financed technical services rendered by LWUA.

Other deferred credits pertaining to interest earned but not yet collected totaling P884.81 million as at December 31, 2011 and P593.17 million as at December 31, 2010 are offset against the water districts' receivable account for financial statement presentation only. The account interest earned but not collected pertains to interest accruing to nonperforming loans; capitalized interests during construction; and uncollected past due interests of various WDs whose terms have been modified in accordance with the restructuring agreement. The account is still being reviewed for validation of amounts. (See Note 10)

21. CAPITAL STOCK

LWUA'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.

22. DONATED SURPLUS

The account represent 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 of the WDs.

During the year, the amount of P349,431,288 representing the loan component of the NLIF assistance, was transferred to this account; LWUA is in the process of validating the propriety of the amount transferred. (See Notes 3 and 16)

23. PRIOR YEAR'S ADJUSTMENTS

A. Adjustments were made directly to the Retained Earnings account to correct prior years' income reported for income and expenses that would have otherwise increased or decreased net income for the period. These direct charges and credits resulted to a net adjustment to the balance of retained earnings account of P143,309,399 (increase) in 2011 and P34,585,596 (decrease) in 2010.

The details of the adjustments for 2011 and 2010 follow:

	2011	2010
a. Foreign exchange cost adjustment due to revaluation of foreign currency loans	1,110,564,957 P	-
b. Overstatement of prior year's interest expense	97,057,291	4,750,452
c. Dividend payable pertaining to prior year's income	(1,130,820,000)	-
d. Open account billings of prior year's capitalized interests in favor of Bacolod WD and Santiago WD	112,220,629	6,028,015
e. Liquidation of outstanding cash advances	(3,442,269)	(3,777,992)
f. COA disallowances/ charges re: 2006 Extraordinary and Miscellaneous Expenses (EME)	13,110,998	-
g. Billing adjustments for engineering services, well drilling and capitalized interests	3,819,220	5,159,378
h. Reversal of unsupported payable accounts	26,653,081	-
i. Closure of billed engineering costs against retained earnings	(93,589,580)	-
j. Consumption/ disposal of materials and supplies	(1,508,665)	(1,123,308)
k. Correction of error in recording	4,413,323	(9,104,270)
l. Cancellation of check re: payment for guarantee fee	4,851,400	-
m. Miscellaneous adjustments	(21,987)	(2,812,643)
n. Payment of 2009 economic assistance	-	(34,143,000)

o. Miscellaneous fees	-	437,772
Total	143,308,398	(34,458,596)

B. LWUA is still in the process of reviewing and validating these adjustments. Significant adjustments made during the year consist of: (1) debit of P1.131 billion to set up of dividends payable to cover dividends due for years 2007 to 2010 even if no dividend declaration; credit of P1.110 billion for foreign exchange adjustment relative to loans payable; and credit of P83.7 million for adjustment on capitalized interest on loans to Bacolod WD.

Because of the significant amounts recorded as corrections of prior years' income, LWUA has requested COA to do a complete audit of these adjustments, which had become continuing practice for several years. To date, LWUA is still awaiting the results of the audit of COA, together with their formal approval relative to these adjustments.

As earlier mentioned, it has been LWUA's practice to record adjustments purportedly pertaining to accounts of prior period against LWUA's retained earnings; as such, there is an annual prior period adjustment in the Company's financial statements. Thus, in 2012, the new Board has issued a directive that no correction of prior years' profits or adjustments to the retained earnings account shall be made without Board approval. LWUA is also reviewing its policies to record transactions in the proper period, to eliminate prior period adjustments, to present true picture of operations on a year to year basis, and to report proper income tax and dividends to the Government.

Major adjustments made to correct prior years' income included the following:

(1) 2010

- Debit of P34.1 million for economic assistance for year 2009 to LWUA officials and employees, as approved by former Board in 2010

(2) 2009

- Debit of P179.6 million for adjustment in amortization billing of Butuan water district
- Debit of P200.8 million for adjustment in capitalized interest in 1999 of Butuan water district
- Debit of P70.7 million for payment of 2006 deficiency tax
- Credit of P356.8 million for billing of capitalized interest from 2005 to 2009 for Butuan water district

(3) 2008

- Credit of P129.2 million for adjustments in interests accruals on loans
- Credit of P55.7 million for various adjustments and reclassifications

(4) 2007

- Credit of P305.5 million due to foreign exchange adjustment
- Credit of P89.1 million due to income tax for 2006

- (5) 2006
 - Debit of P213.0 million for COLA differentials
- (6) 2005
 - Debit of P33.4 million for adjustment for penalty billings
- (7) 2004
 - Debit of P414.1 million due to deferred foreign exchange differential

C. As part of its clean up activities, LWUA also made the following adjustments to the retained earnings account.

RETAINED EARNINGS

The account represents the cumulative balance of periodic income or loss, dividends and other capital adjustments.

In CY 2010, the beginning balance of Retained Earnings is restated to recognize prior year's adjustments in income and expenses as shown below:

	2011	2010
Balance at 01 January	342,804,915	(36,723,298)
Effect of Prior Year's Adjustments, Net of Tax	-	143,308,399
As Restated	342,804,915	106,585,101
Profit (Loss) for the Period	(952,135,024)	236,219,814
Balance at 31 December	(609,330,109)	342,804,915

Below is the summary of restatements made for the year ended December 31, 2010:

	Audited CY 2010 FS	Adjustments in 2011	Restated
Assets	18,169,765,430	(831,400,571)	17,338,364,859
Liabilities	12,216,211,663	(974,708,970)	11,241,502,693
Equity	5,953,553,767	143,308,399	6,096,862,166

24. INTEREST INCOME

This represents interest income from lending operations. (see Note 7)

Loan releases for the development of various water supply projects loans graduated interest rates ranging from 8.5% to 15% per annum depending on the amount of 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.

For loans approved starting March 10, 2009, the Board has approved and adopted the following rates under loan window 1 while extending the amortization period to 40 years, as follows:

10 years maximum	=	9.2%p.a.
20 years maximum	=	9.5%p.a.
30 years maximum	=	9.8%p.a.

25. MISCELLANEOUS INCOME

Details of this account are as follows:

	2011	2010
Miscellaneous fees from document reproduction, chemical testing, application and processing fees, etc.	1,989,135	3,712,628
Interest on savings deposits & investments in bonds	5,468,752	9,177,080
Open account billings from various WDs (see Note 7)	24,477,666	138,941
Interest income on housing and car loans to employees (see Note 10)	3,633,107	3,059,545
Total Miscellaneous Income	35,568,660	16,088,194

The interest on savings deposits and investments in bonds, open account billings from various WDs and interest income on housing loans from employees which were previously shown under interest income in the 2010 financial statements have been reclassified to this account.

26. OPERATING EXPENSES

This account consists of:

	2011	2010
PERSONAL SERVICES		
Salaries and Wages - Regular	200,100,474	184,246,597
Additional Compensation (ADCOM)	119,529,122	110,621,697
Other Bonuses and Allowances	85,249,997	197,040,859
Other Personal Benefits	46,524,132	37,829,331
Personnel Economic Relief Allowance (PERA)	13,677,331	14,154,521
Life and Retirement Insurance Contributions	22,964,647	19,275,025
RATA	20,159,617	16,244,890

Clothing/Uniform Allowance		3,544,000		3,564,000
PHILHEALTH Contributions		2,070,175		1,858,250
Terminal Leave Benefits		2,064,080		1,103,882
PAG-IBIG Contributions		742,200		591,500
ECC Contributions		685,166		649,861
Honoraria		55,000		242,538
Total Personal Expenses	P	517,365,941	P	587,422,951

		2011		2010
MAINTENANCE AND OTHER OPERATING EXPENSES				
Professional Services	P	25,991,440	P	24,777,559
Confidential, Intelligence, Extraordinary and Miscellaneous Expenses		17,087,252		30,977,117
Service Expenses		15,478,072		18,697,632
Utility Expenses		14,126,012		14,200,605
Taxes, Fidelity Bond Premiums and Other Fees		11,988,209		7,547,536
Travelling Expenses		7,949,888		12,279,920
Repairs and Maintenance		3,976,572		8,075,418
Communication Expenses		3,929,214		3,915,081
Supplies and Material Expenses		3,822,096		4,364,779
Training and Scholarship Expenses		2,940,644		2,445,197
Insurance		1,626,370		1,604,378
Advertising Expenses		1,567,155		3,709,249
Subsidies and Donations		667,016		7,056,500
Rent Expenses		645,598		639,896
Subscription Expenses		142,815		233,462
Other Maintenance and Operating Expenses		2,566,572		3,526,207
Total MOOE Before Non-cash Expenses	P	114,504,925	P	144,050,536
Non-Cash Expenses				
Bad Debts Expense	P	1,409,950,908	P	188,581,731
Depreciation		46,748,613		30,169,233
Total Non-Cash Expenses	P	1,456,699,521	P	218,750,964
Total Maintenance and Other Operating Exp.		1,571,204,446		362,801,500
Total Operating Expenses	P		P	

The COA has raised questions over certain employees' benefits continuously given for several years and disallowed them as without legal basis and which have not been included in the corporate operating budgets approved by the DBM. To date, COA has issued NDs totaling P430.21 million, pertaining to 2006 to 2010 EME; 2009 and 2010 year end financial assistance, anniversary incentive bonus, midyear financial assistance and former Board of Trustees representation and transportation allowance (RATA); 2009 economic assistance charged to retained earnings; 2002 and 2010 COLA and AA; and grocery allowance. To address the issue, the new

Board had a series of consultations with DPWH, DBM, GCG, LWUA management, and LWUA Employees' Association.

The GCG in its letter to LWUA dated January 4, 2012 in reply to LWUA's query with regard to these benefits stated:

- The lawful adoption by any GOCC of a compensation and benefit package shall always be subject to the approval of the President of the Philippines, and adoption and implementation of such compensation and benefits package without approval of the President would be legally unwarranted.
- For current LWUA Board and Management to continue granting benefits would amount to assuming also personal and official liability for granting benefits that are not authorized.
- The current LWUA Board and Management should get advice of legal counsel on steps it plans to take to remedy the situation and avoid committing the illegal acts taken by the old Board and Management just to buy industrial peace.

The new Board discontinued various employees' benefits with formal NDs in 2011: year-end financial assistance, anniversary incentive bonus, birthday cash gift, economic assistance, educational subsidy, grocery allowance, executive check-up and the Board's representation and transportation allowance. The new Board also issued a resolution for strict compliance with COA requirements on reimbursement of EME. Total employees' benefits discontinued in 2011 amounted to P199.243 million.

In February 2012, the new Board also discontinued the grant of COLA and AA, after thorough discussions with GCG and on the basis of a Supreme Court ruling issued relative to COLA. LWUA's monthly expense is to be reduced by P8.146 million due to this action. LWUA is presently studying the ERIP for its employees to address the negative impact on employees of discontinuance of the benefits without legal basis and to reduce LWUA's operating costs for the future. In the light of the financial condition of LWUA, the new Board has requested DBM for funding assistance of about P600 million for the ERIP, which was later disapproved by the latter.

27. FINANCIAL EXPENSES

	2011	2010
Interest Expenses		
Foreign	282,992,976	317,262,678
Local	90,422,125	113,575,824
WD Deposit Portfolio	5,551,893	7,412,973
Total Interest Expenses	378,966,994	438,251,475
Bank Charges	64,977	9,634
Total Financial Expenses	379,031,971	438,261,109

Interest expenses represent payments for interest and other debt service charges.

28. INCOME TAXES

The provision for current income tax represents Regular Corporate Income Tax or Minimum Corporate Income Tax in 2011 and 2010.

Numerical reconciliation between tax expense and the product of accounting income multiplied by the tax rate of 30% in 2011 and 2010 are as follows:

	2011	2010
Accounting Income	(1,361,456,861)	335,165,543
Tax Expense at 30%	(408,437,058)	100,549,663
Tax Effect on non-deductible interest expense	623,438	1,046,187
Tax Effect on non-taxable interest income	(1,508,217)	(2,650,121)
Total Deferred Credits	(409,321,837)	98,945,729

Details of current tax are as follows:

	2011	2010
Sales/Revenue/Receipts/Fees	1,179,098,776	1,689,462,841
Less: Cost of Services	1,042,677,166	456,909,579
Gross Income from Operations	136,421,610	1,232,553,262
Non-Operating Taxable Other Income	55,989,576	25,027,022
Total Gross Income	192,411,186	1,257,580,284
Less: Deductions	146,866,403	739,179,458
Net Taxable Income	45,544,783	518,400,826
Tax Rate	30%	30%
Current Tax	13,663,435	155,520,248

Details of computed Income Tax Benefit are as follows:

	2011	2010
Bad Debts, End	3,819,664,230	2,404,671,850
Less: Allowance for Bad Debts, Beginning	2,409,713,322	2,216,090,118
Provision for Bad Debts	1,409,950,908	188,581,732
Tax Rate	30%	30%
Income Tax Benefit	422,985,272	56,574,520

The computed Income Tax Benefit does not include the CY 2011 gain on foreign exchange.

As stated in Note 31, the OGCC has the opinion that LWUA is exempt from the payment of income taxes and percentage taxes by virtue of Republic Act (RA)

10026. LWUA has sent a request letter to the BIR for any tax due. LWUA is presently reconciling the BIR's letter with the Company records.

As LWUA's clean up activities are still in progress, any adjustments will be recorded upon completion of such activities. The final determination of LWUA's income tax expense, income tax payable, and deferred income taxes shall therefore be made upon completion of LWUA's clean-up activities.

29. 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 which are not presently determinable.

The significant legal cases are as follows:

- a. Honorable Jed Patrick E. Mabilog, etc. vs. LWUA, Emmanuel Malicdem, Enrique Gita, Hermilo Balucan, Atty. Romeo P. Gorochi, Dra Jessica Salas and Atty. Rodolfo Legaspi.

Civil Case No. 10-30783 RTC-6th JR Branch 24, Iloilo City

Questioning the authority of LWUA designate members of the interim BOD of Metro Iloilo WD (MIWD) after LWUA nullifies the appointments of the regular members of the Board.

Status: By agreement of the parties, the Court ordered the formation of Panel of Commissioners to determine the cited number of MIWD concessioners.

- b. Metro Iloilo Water District Board of Directors, Petitioner vs. LWUA, represented by its Administrator and Engr. Warren Palermo, in his capacity as President of MIWD Employees Union CA G.R. SP No. 115761 CA 11th Division

Petition for Review under Rule 65 with prayer for issuance of TRO/Preliminary Injunction questioning LWUA's authority to annul appointment of MIWD directors.

Status: Respondent Warren Palermo filed a Manifestation dated May 2, 2011.

Remarks: LWUA is a nominal party under Section 5 of Rules 65 of 1997 Rules of Procedures

- c. LWUA Employees Association for Progress (LEAP), Petitioner vs. LWUA Chairman Prospero A. Pichay and Administrator Daniel I. Landingin SP Case No. Q-10-68133 RTC NCJR Branch 220 Q.C.

Certiorari and Prohibition with prayer for a Writ of Preliminary Mandatory Injunction questioning the legality of the creation of LWUA Consult, Inc.

Status: The petitioner has filed a Manifestation and Motion to Submit Main Case for Resolution; no resolution yet.

Remarks: For resolution

- d. LWUA, etc. vs RD Policarpio & Co., Inc.
CA-G.R. SP No. 119019 CA Special 8th Division
Petition for Review with prayer for issuance of Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction questioning the Decision of CIAC Case No. 15-2010
Status: Filed Memorandum on November 11, 2011

- e. LWUA vs. Municipality of Borbon, Cebu and Board of Directors of Borbon Water District Civil Case No. Bogo-02024 RTC 7th JR Branch 61 Bogo City, Cebu

For Declaration of Nullity of Board Resolution No. 5, s, 2007 and Sangguniang Bayan Resolution No. 149-2007 with prayer for injunction in relation to the take-over of the Borbon WD by the local government.

Status: Mediation proceedings on-going

- f. Norma P. Somoray, et al, Plaintiffs vs. Serapia Obayan, Maria Eden T. Japa, Lilian Asprer as Acting Deputy Administrator-LWUA, Mayor Damian T. Luzon, Jr., Municipal Mayor of San Jose, N. Samar CA GR CV No. 03724 CA Cebu
(For the Nullification of the appointments of the directors of San Jose WD, San Jose, Northern Samar) Injunction with prayer for issuance of Writ of Preliminary Injunction and/or TRO.

Status: Per Order dated Aug. 23, 2011, appellants were directed to file their Brief within 45 days; Appellants filed a 2nd Motion for Extension of Time to File Brief

- g. Buhi Rural Waterworks and Sanitation Association, Inc. (BRWSA, Inc.), et al vs. Buhi Rural Waterworks and Sanitation Multipurpose Cooperative, et al Civil Case No. IR 3627 RTC 5th JR Branch 60 Iriga

Annulment of LWUA Certificate of Dissolution and Dissolution of Cooperative with prayer for damages

Status: Presentation of defendant's evidence, next hearing is on October 2, 2012

Remarks: Should Court decide to annul LWUA Certificate of Dissolution, Cooperative will revert back as RWSA

- h. LEAP, et al vs. LWUA, et al SP No. 06-59047 RTC NCR Branch 92 Q.C.

The petitioners are questioning the DBM-approved Staffing Pattern, LWUA Board

of Trustees Resolution. No 69, series of 2006 approving the implementation of the LWUA Rationalization/Reorganization Plan, Executive Order Nos. 279, 366 and 421.

Status: Petition already submitted for resolution as both parties submitted respective memoranda

Remarks: Preliminary Injunction was issued by the Court. To date, new staffing pattern not implemented.

- i. Dr. Sergio M. Gonzales, et al vs. LWUA Admin. Landingin, SDA Malicdem and Le Jayme Balbuena CA G.R. SP No. 117462 CA 20th Division

Petition for Certiorari and Prohibition with prayer for issuance of TRO and/or Writ of Preliminary Injunction to nullify the letter of public respondent nullifying petitioners appointment as BOD of Metro Iloilo WD.

Status: In a Decision promulgated on Feb. 28, 2011, Petition was dismissed

- j. Ariston V. Francisco, Dollie Bravo-Cruz & Veneranda V. Francisco vs. Office of the Ombudsman, LWUA & Galo Antonio Violago CA-G.R. SP No. 119068 CA 12th Division

For Prohibition with prayer for the issuance of of TRO and/or Writ of Preliminary Injunction to cause respondent Ombudsman to desist from causing the immediate execution of its Decision in Adm. Case No. OMB-L-A-09-0715-K, LWUA is impleaded as proper party to prevent the enforcement of the dismissal of petitioners.

Status: In a Resolution of CA dated May 27, 2011, the public respondent is granted an extension of 60 days from May 21, 2011 or until July 20, 2011 to file comment on the petition.

Remarks: LWUA is a nominal party.

- k. LWUA vs. CA, Alice Marie C. Osorio, et al G.R. SP No. 199882 (CA GR SP No. 108851) CA 6th Division

Petition for Review of CA Aug 11, 2011 decision of reinstating Osorio with back salaries.

Status: Petition for Review filed on January 8, 2012; Respondent ordered to submit Comment.

Remarks: CA ordered the reinstatement of Osorio with back salaries per Decision dated Aug. 11, 2011

- l. Teresita B. Rivera vs. Office of the Deputy Ombudsman for Luzon, LWUA, San Pablo City WD and Redentor C. Derequito CA-G.R. SP No. 119699 CA 12th Division

Certiorari with prayer for TRO and Writ of Preliminary Injunction questioning the action of

the Office of the Deputy Ombudsman for Luzon in directing LWUA to immediately implement its decision in OMB-L-A-08-0884-L.

Status: In a Notice dated Oct. 11, 2011, petition is considered submitted for decision and the prayer for injunctive relief shall be resolved along with the merits of the case.

Remarks: LWUA is a nominal party.

- m. Nationwide Distributors, Inc. vs. Tallado, Vinhar Construction, Inc, Billy Azarcon, LWUA & Surigao Metro WD Civil Case No. 06-183 RTC NCJR Branch 146 Makati City Breach of Contract and Damages.

Status: Presentation of evidence of defendants; Next hearing Oct. 15, 2012

- n. LWUA vs. Hon. Samuel S. Gaerlan, et al CA-G.R. No. 100482 CA

Certiorari questioning the Injunction Order issued by the Court.

Status: Preliminary injunction lifted per CA Decision dated Aug. 28, 2012

- o. Atty. Rodolfo S. De Jesus vs. LWUA and Ephyro Luis B. Amatong (Acting Chairman), Antonieta F. Ibe (Acting Member), Eduardo C. Santos (Acting Member), , Carlos Primo C. David (Acting Member) (in their personal and as LWUA Board members) Civil Case No. Q-11-69777 RTC NCJR Branch 97 Q.C.

Injunction/Prohibition with Application for TRO and/or Writ of Preliminary Prohibitory Injunction – Regarding the recall of reinstatement of of Atty. De Jesus.

Status: Awaiting court order of dismissal of the Petition for being moot and academic as petitioner has already attained the mandatory retirement age.

Remarks: LWUA Board of Trustees recalled the reinstatement due to 2nd dismissal order issued by the Ombudsman

- p. Cesar E. Barcelona, et al. vs. LWUA, et al. Civil Case No. Q-1169969 RTC NCJR Branch 76 Q.C.

Prohibition with prayer for TRO and Preliminary Mandatory injunction

Status: Motions to Dismiss of Respondents Verida & Ferrer were dismissed; they were ordered to submit comment

Remarks: Application for TRO deemed abandoned for petitioners' failure to appear

**30. SUPPLEMENTARY INFORMATION REQUIRED BY REVENUE REGULATIONS
NO. 19-2011**

Sales/Revenues

Sale of Services	Amount
Service Income - Engineering Study	11,822,026
Service Income - Construction Supervision	13,204,691
Service Income - Well Drilling	5,778,462
Service Income - Systems Development	90,000
Operating Income - Interests	1,148,203,597
Total Sales/Revenues	1,179,098,776

Cost of Sales/Service

Cost of Services	Amount
Salaries and Allowances	336,850,927
Fringe Benefits (Honoraria/Year-end Bonus)	83,774,197
GSIS, Philhealth, HDMF and Other Contributions	75,048,900
Representation and Entertainment	20,159,617
Losses	134,411,608
Sub-Total	650,245,249
Well Drilling Operating Expenses	3,712,095
Construction Supervision Expenses	10,759,928
Engineering Study Expenses	764,764
Watershed Management Service Expenses	241,285
Bank Charges	64,977
Interest Expense on Foreign Loans	282,992,976
Interest Expense on Domestic Loans	88,343,999
Interest Expense on WD Deposits	5,551,893
Sub-Total	392,431,917
Total Cost of Services	1,042,677,166

Non Operating and Taxable Other Income

Non-Operating Taxable Other Income	Amount
Interest Income from Housing/Car Loan	3,633,107
Seminar Fees	4,424,400
Fines and Penalties	20,998,028
Miscellaneous Income	
Dividend On Stock	15,650
Miscellaneous Income	26,918,391
Total Non-Operating and Taxable Other Income	55,989,576

Itemized Deductions

Itemized Deductions	Amount
Rental	645,598
Professional Fees	7,930,146
Director's Fees	1,530,800
Management and Consultancy	4,622,844
Janitorial and Messengerial Services	13,438,449
Advertising	1,567,155
Repairs and Maintenance	3,976,572
Office Supplies	2,275,082
Insurance	1,626,370
Transportation and Travel	7,949,888
Fuel and Oil	1,547,014
Communication, Light and Water	18,055,226
Taxes and Licenses	11,384,627
Depreciation	46,748,613
Charitable Contributions	667,016
Miscellaneous	17,087,252
Others	5,813,751
Total Itemized Deductions	146,866,403

31. SUPPLEMENTARY INFORMATION REQUIRED BY REVENUE REGULATIONS NO. 15-2010

Records show that LWUA is a VAT registered corporation; however, no input VAT was being recognized on all of LWUA's procurement of goods and services. In a letter dated October 22, 2010, LWUA, thru the OGCC, has filed a protest letter to the BIR, protesting BIR's Letter of Authority (LOA) No. 039-2010-299 issued to LWUA on September 29, 2010. Following were the reasons cited by the OGCC in the protest letter:

- 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 by the imposition of franchise and value added taxes

Taxes, licenses, and withholding taxes accrued and paid during the year totaled P163,497,000 broken down as follows:

Taxes and Licenses	Current Year	Paid in 2011 for Taxes Incurred in Prior Period
Corporate Income Taxes Paid -		
First Quarter 2011		
Second Quarter 2011	43,827,825	44,470,310
Third Quarter 2011	14,521,735	
Total Before Income tax Benefit	58,349,560	44,470,310
Provision for Income Tax	-	
Add:		
Fringe Benefit Taxes	6,400,218	
Documentary Stamp Tax	4,965,753	
Total Taxes and Licenses	11,365,971	-
Withholding Taxes		
On Compensation	27,722,654	
Creditable Withholding Taxes	7,554,714	
Final Withholding Taxes	12,867,865	
On WDDP Deposits	1,165,926	
Total Taxes Withheld	49,311,159	-
Total Taxes and Licenses Paid/ Accrued/ Withheld	119,026,690	44,470,310

Pursuant to Section 33 of 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 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 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. .

As stated in Note 31, the OGCC has the opinion that LWUA is exempt from the payment of income taxes and percentage taxes by virtue of RA 10026. LWUA has sent a request letter to the BIR for any tax due. LWUA is presently reconciling the BIR's letter with LWUA records

As LWUA's clean-up activities are still in progress, any adjustments will be recorded upon completion of such activities. The final determination of LWUA's income tax expense, income tax payable, and deferred income taxes shall therefore be made upon completion of LWUA's clean up activities.

32. COA Audit Suspensions, Disallowances and Charges – P1,210 million for 2004 to 2010

In addition to the NDs mentioned in Note 26, COA has also disallowed a total of P780.0 million pertaining to LWUA's acquisition of ESBI as well as its investment and deposit to ESBI.

33. Institutional Reforms Moving Forward

As part of its reforms, the New Board is currently revisiting LWUA's current policies and instituting the following reforms. These are discussed in Note 3 as part of LWUA's clean up activities.

In addition, the new Board shall be undertaking the following activities:

- a. Detailed review and analyses of its projects disbursements to determine nature of projects and source of funding. All disbursements to projects should agree with LWUA's capital investment program duly approved by the Board, and should be verified against the grantors' list for projects to be funded by trust funds.
- b. Detailed review of cash flow requirements to ensure fund availability to complete ongoing projects and start new projects, as well as for operations, and to determine financial viability of LWUA's operations and future survival. As mentioned in Note 13, the PSF projects for which total funds released amounted to P2.345 billion require a total project cost of P6 billion; as such, LWUA has to look for additional funds of about P4 billion to complete these projects in progress and thus be able to generate income for LWUA and make the projects productive and useful to the affected water districts and communities. To discontinue such projects due to lack of fundings will mean more loss in terms of outright loss of the funds originally released of P2.345 billion, the expected income from the funds released, and the expected benefit to the affected water districts and communities.

While the Company is saddled by the problems of the past, LWUA also needs additional funds to move forward for new projects in accordance with its vision and support for the strategy map of the government.

- c. Aggressive search for funding to support LWUA's funding requirements. This will require formal marketing strategies for the recognition of LWUA as a vital agency for the government's link to the WDs and communities and thus help the government provide water – a very important resource to the Filipino people.
- d. An overall review of its operations for cost and benefit analysis, rationalization of employees and systems and procedures, and setting of performance standards.
- e. Effective and efficient governance of the WDs to ensure better and quality service to the communities

House Cleaning and Institutional Reforms

To rectify the apparent breakdowns in / override of internal controls, we are revisiting current policies and instituting the following reforms:

- a) Holistic review of entire lending operations;
- b) Detailed review of receivables from WDs;
- c) Control over project disbursements which include use of selection criteria, capital investment programming and disbursement scheduling, and standard costing;
- d) Requirement for technical audit on projects;
- e) Strict compliance with use of Budget Register and Certificate of Availability of Funds;
- f) Monitoring of WDs through benchmarking, review of COA audit reports, and other institutional milestones.

PART II
A. COMMENTS AND OBSERVATIONS

1. Of the six individual loan accounts with three foreign lending banks under *Loans Payable – Foreign* account with year-end balance of P4,622.776 million per LWUA records, four loan accounts posted variance against the confirmed balances of the foreign lending institutions, with the latter higher by P132.271 million.

Similarly, of the ten loan accounts with five foreign lending institutions under LWUA's *Loans Payable - GOP* with year-end balance of P1.832 billion, three loan accounts differed from the confirmed balances of the foreign lending institutions, with the latter higher by P58.641 million.

No reconciliation of loan balances between the LWUA records and the records of foreign lending institutions had been vigorously pursued since the setting up of loans by LWUA.

- 1.1 As of December 31, 2011, account *Loans Payable – Foreign*, carried a year-end balance of P4,622,776,046. These pertained to loans arising from the loan agreements executed by and between the foreign lending institutions (Asian Development Bank, Overseas Economic Cooperation Fund, Australian Aid and Kreditanstalt fur Wiederaufbau) and the LWUA, as the direct borrower in the years 1975 to 2004. By the terms of the loan agreements, the borrower LWUA and not the Bureau of the Treasury, shall remit all repayments in the currency of the lending bank in accordance with the repayment/ amortization schedule set forth in the loan agreement with loans guaranteed by the National Government. Requests for confirmation were sent out to the foreign lending banks as regards account's year-end balances. Shown in Table 1.1 is the breakdown of the *Loan Payable – Foreign* account, together with the data on which confirmation replies were received from the foreign lending banks:

Table 1.1
Breakdown of Loans Payable – Foreign
As of December 31, 2011

<i>Foreign Lending Institutions</i>	<i>Loan Account Number</i>	<i>Outstanding Balance</i>	<i>With/Without Replies to Confirmation Requests</i>
Asian Development Bank	ADB 1269	P 513,287,617	With Confirmation reply
Asian Development Bank	ADB 1472	790,308,713	-do-
Overseas Economic Cooperation Fund	OECF PH- P154	738,219,423	No confirmation reply
Overseas Economic Cooperation Fund	OECF PH-P181	1,797,468,577	-do-
Kreditanstalt fur Wiederaufbau	KFW (PTWSP I & II)	774,965,296	With Confirmation reply
Kreditanstalt fur Wiederaufbau	KFW (PTWSP III)	8,526,420	-do-
Total		P 4,622,776,046	

Details of the loan accounts are found in Note 18 to the Financial Statements in Part I of this Report.

- 1.2 Meanwhile, account *Loans Payable – GOP* posted a year-end balance of P1,832,784,696. This arose from loan agreements that were entered into by and between the GOP as the borrower, and the foreign lending institutions as the lender in the years 1977 to 2004. As provided for under the Main Loan agreements, the Borrower GOP shall authorize the Local Water Utilities Administration to implement the project. As such, LWUA therefore was named the Executing Agency. A sub-loan agreement was subsequently entered into by and between the GOP represented by Department of Finance, and the LWUA. Requests for confirmation on LWUA's *Loans Payable - GOP* for relent loans were likewise sent, but only confirmation replies from ADB were received as of this date. Shown in Table 1.2 is the breakdown of the accounts and those lender which answered the confirmation requests.

Table 1.2
Breakdown of Loans Payable – GOP
As of December 31, 2011

Foreign Banks	Loan Account Number	Outstanding Balance	With/Without Replies to Confirmation Requests
United States Agency for International Development (USAID)	USAID 033	P 113,822,208	No confirmation reply
USAID	USAID 042	165,593,559	-do-
Asian Development Bank (ADB)	ADB 1056	426,122,982	With Confirmation reply
ADB	ADB 1057	29,778,724	-do-
ADB	ADB 1599	11,058,210	-do-
International Development Association (IDA)	IDA 920	31,475,978	No confirmation reply
Overseas Economic Cooperation Fund	OECF PHP 82	85,764,922	-do-
OECF	OECF PHP 124	95,254,310	-do-
PECF	OECF PHP 149	821,482,171	-do-
French Protocol	FRENCH PROTOCOL	52,431,632	-do-
Total		P 1,832,784,696	

- 1.3 Confirmation replies received by the Audit Team directly from the ADB and the KFW for *Loan Payable – Foreign* account showed material variances with the balances per LWUA's records, as presented in Table 1.3.

Table 1.3
Loans Payable – Foreign
Computation of Variance Between Lender Records and LWUA Records

Loan Account	Original currency	Per LWUA Records		Results of Confirmation (In US\$ and Euro)	Difference (In US\$ and Euro)	Exchange Rate	Variance (In PhP)
		(In PhP)	(In US\$ and Euro)				
ADB 1472	US \$	790,308,713	16,615,845.43	17,990,901.49	(1,375,056.06)	43.919	(60,391,087.10)
ADB 1269	US \$	513,287,617	11,602,555.14	11,721,554.58	(118,999.44)	43.919	(5,226,336.41)
KFW 4197642	Euro	774,965,296	13,805,665.71	13,633,434.03	172,231.68	56.8444	9,790,406.51
KFW 9266103	Euro	8,526,420	150,000.00	199,500.00	(49,500.00)	56.8444	(2,813,797.80)
Total		2,087,088,046					(58,640,814.80)

- 1.4 Likewise, confirmation replies for *Loan Payable – GOP* account received from Asian Development Bank by the Audit Team showed huge differences in amounts when compared with LWUA's records as shown in Table 1.4.

Table 1.4
Loans Payable – GOP (Relent loans)
Computation of Variance Between Lender Records and LWUA Records

Loan Account	Original currency	Per LWUA Records		Results of Confirmation (In US\$)	Difference (In US\$)	Rate of Exchange	Variance in PhP
		In PhP	In US\$				
ADB 1599	US\$	11,058,210	251,734.89	871,329.99	(619,595.10)	43.919	(27,211,997.20)
ADB 1056	US \$	426,122,982	9,700,486.75	11,721,412.32	(2,020,925.57)	43.919	(88,757,030.11)
ADB 1057	US \$	29,778,724	677,898.47	1,049,090.65	(371,192.18)	43.919	(16,302,389.35)
Total		466,959,916	10,630,120.11	13,641,832.96	(3,011,712.85)		(132,271,416.66)

- 1.5 We gathered that reconciliation of the records of LWUA and the foreign lending institutions had not been vigorously pursued since the setting up of the loans by LWUA.
- 1.6 ***We recommended and Management agreed that the Accounting Division reconcile the noted variance / difference between the recorded balances of Loans Payable Foreign and Loans Payable GOP against the amount confirmed by the Foreign Lending Institutions to reflect the correct balances of these loan accounts.***
- 1.7 ***We also recommend that Management coordinate with the foreign lending institutions for the immediate reconciliation of their loan accounts with no***

confirmation replies received from the latter to ascertain the correct balances.

1.8 Management has already submitted a Reconciliation Statement of foreign loan accounts between LWUA Records and confirmation replies from ADB and KFW.

2. Variances were noted between the LWUA and Bureau of Treasury's book balances of their respective payables/ receivables as of December 31, 2011.

2.1 Based on the results of confirmation made by the Supervising Auditor of the Bureau of Treasury (BTr) on the balances of Loans Receivable of BTr against the balances of Loans Payable of LWUA, we noted variances between the two records totaling P910.63 million, with details in the table below.

**Table 2.1
Loan and Investment Accounts
BTr Records Against LWUA Records
As of December 31,2011
(In Million Pesos)**

Per Books of the Bureau of Treasury		LWUA Books (based on Final Balances)		Difference
	Account Title	Amount	Account Title	Amount
NG Receivables				
1	Loans Receivable			
	Relent Loans	2,747.80	Loans Payable- GOP	1,832.78
2	Due from GOCCs			
	2.1 Advances	46.49	Advances by BTr	88.49
	Regular Advances	21.81		
	Dormant Advances	24.68		
	2.2 Guarantee Fees	87.84	Payable- Unliquidated Advances	50.23
	Total NG Receivables	2,882.13	Total LWUA Payable	1,971.50
				(910.63)

2.2 Inquiry with the Accounting Department revealed that LWUA had been preparing a yearly Reconciliation Statement but the Bureau of Treasury had not reflected adjustments in their books.

2.3 We therefore recommended that LWUA's Accounting Department coordinate with the Bureau of Treasury to reconcile the book balances of accounts related to their foreign loans to fairly present the accurate amount of foreign loans at the end of each year.

2.4 LWUA submitted in February 2013 a Reconciliation Statement of its Loans Payable - GOP with the Bureau of Treasury's account Loans Receivable Relent Loans pertaining to LWUA's accounts. However, initial review of the Reconciliation Statement showed that it did not reflect the recorded book balance of the Advances by the Bureau of Treasury.

3. **A total of 60 Water Supply Projects with fund releases from Non-LWUA Initiated Funds (NLIF) to 57 water districts totaling P543.24 million which started in January 2011 were reported with 8% to 93% of completion as of December 31, 2011 and could not be completed as no further releases were received from the National Government. Likewise, nine water supply projects were started by water districts without any fund releases received from NLIF.**

3.1 To augment the limited funds of the LWUA's Corporate Fund in extending loans or financial assistance to Water Districts, LWUA resorted to securing assistance from the National Government in the form of government subsidy, or what is termed as **Non-LWUA Initiated Funds (NLIF)**.

3.2 For Calendar Years 2009 to 2011, the NLIF received from the National Government amounted to P3,856,269,724, as follows:

**Table 3.1
Funds Received by LWUA from the National Government under NLIF
From CY 2009 to CY 2011**

Basis - General Appropriations Act	Year Release to LWUA	DOH	DPWH	BTr	DENR	Total
CY 2010	2011	986,400,000		53,501,600	1,000,000	1,040,901,600
CY 2010	2010	375,000,000				375,000,000
CY 2009	2009		490,173,125	1,950,195,000		2,440,368,125
	<i>Total</i>	1,361,400,000	490,173,125	2,003,696,600	1,000,000	3,856,269,725

3.3 Records showed that LWUA had reported 128 water projects with costs totaling P2,643,637,000 per Programs of Work (POW). This amount represents the funding requirements for civil works contracts needed to construct the water projects and to complete the same, ready for use by the intended water beneficiaries. These POW should have been completed, or targeted for completion by December 31, 2011. Details are presented in Tables 3.2, 3.3 and 3.4, with summary in Table 3.5.

3.4 Our audit of the implementation of above POWs disclosed the following:

- a. Only 60 water projects with POWs totaling P1,253,517,000 were implemented with P543.249 million releases to water districts funded under NLIF. This amount was based on the confirmation replies received by the Audit Team from the water districts concerned for CYs 2009 to CY 2011 and on the Schedule of Funds Released to Water Districts out of the General Appropriations Act for CY 2009 and CY 2010 prepared by LWUA Project Monitoring Team. It was reported that the implementation was suspended because of non-receipt of the remaining funding requirements. Details are shown in Table 3.2.

- b. There were also reported water districts with estimated funding requirements per POWs that did not get any fund from NLIF but reported 5% to 79% accomplishments as shown in Table 3.3. However, the water supply projects stopped because no funds had been received from LWUA.
- c. A total of 59 water supply projects with total funding requirements of P1,304,840,000 had not been started at all, with details shown in Table 3.4.

Table 3.2
List of Water Supply Projects with Fund Releases and Partially Implemented
As of December 31, 2011
(In Million Pesos)

Area	Water District	POW (in million of Php)	Released Total	Unreleased Balance	% of Physical Completion Dec 31, 2011	
Area 1	Abulog, Cagayan	46.700	20.020	26.680	62	
	Allacapan, Cagayan	27.400	10.331	17.069	48	
	Balaoan, La Union	27.800	4.840	22.960	30	
	Balbalan, Kalinga, Apayao	1.500	1.273	0.227	80	
	Banguì Ilocos Norte	26.700	6.928	19.772	32	
	Dagupan, Pangasinan	40.000	8.430	31.570	52	
	Lal-IO Cagayan	25.000	22.130	2.870	77	
	Lasan, Cagayan	25.000	22.140	2.860	86	
	Lingayen, Pangasinan	20.000	17.102	2.898	27	
	Mapandan, Pangasinan	30.000	6.040	23.960	65	
	Roxas, Isabela	10.370	6.804	3.566	85	
	San Isidro, Isabela	29.880	2.905	26.975	32	
	Santo Tomas, La Union	32.800	7.856	24.944	56	
	Well Drilling Projects					
	Dagupan, Pangasinan	100.000	26.570	73.430	35	
	Lingayen, Metro WD	20.000	17.100	2.900	8	
	Roxas Isabela	30.000	10.370	19.630	85	
		Total Area 1	493.150	190.839	302.311	
	Area 2	Balanga Bataan	5.500	2.000	3.500	46
Bongabon, Nueva Ecija		20.000	3.998	16.002	83	
Botolan, Zambales		10.000	5.600	4.400	82	
Bulacan, Bulacan		25.000	22.700	2.300	76	
Cuyapo, Nueva Ecija		20.000	2.830	17.170	0	
Guimba WD, Nueva Ecija		30.000	12.945	17.055	79	
Jaen WD, Nueva Ecija		25.000	5.200	19.800	68	
Morong, Bataan		10.000	2.200	7.800	70	
San Antonio WD, Nueva Ecija		15.000	6.550	8.450	70	
San Rafael Bulacan		15.000	13.223	1.777	83	
		Total for Area 2	175.500	77.246	98.254	

Area	Water District	POW (in million of Php)	Released Total	Unreleased Balance	% of Physical Completion Dec 31, 2011
Area 3	Morong WD, Rizal	10.000	2.200	7.800	60
	San Juan WD, Batangas	20.000	21.360	-1.360	85
	Total for Area 3	30.000	23.560	6.440	
Area 4	Bacacay WD, Albay	23.160	5.249	17.911	41
	Paracale WD, Camarines Norte	24.500	4.240	20.260	64
	Pasacao WD, Camarines Sur	25.000	4.099	20.901	79.5
	Sorsogon WD, Sorsogon	14.090	7.630	6.460	85
	Total for Area 4	86.750	21.218	65.532	
Area 5	Barbaza WD, Antique	7.430	2.454	4.976	40
	Calinog WD, Iloilo	10.000	8.210	1.790	92
	Estancia WD, Iloilo	30.000	12.150	17.850	70
	Miagao WD, Iloilo	5.000	4.600	0.400	68
	Nabas, Aklan	17.040	5.190	11.850	35
	Total Area 5	69.470	32.604	36.866	
Area 6	Baybay WD, Leyte	25.000	11.045	13.955	80
	Can Avid WD, Samar	21.930	4.210	17.720	14
	Catbalogan WD, Samar	30.000	7.994	22.006	53
	Total for Area 6	76.930	23.249	53.681	
Area 7	Bacuag WD, Surigao del Norte	20.000	13.289	6.711	36
	Bunawan WD	5.000	0.270	4.730	8
	Burgos WD, Surigao del Norte	21.560	10.399	11.161	48
	Cantilian WD, Surigao del Sur	13.250	9.990	3.260	64
	Carmen WSD, Surigao del Sur	27.560	9.250	18.310	58
	Claveria WD, Misamis Oriental	18.610	7.800	10.810	67
	Kibawe WD, Bukidnon	5.000	2.500	2.500	32
	Metro Siargao, Surigao del Norte	10.000	6.844	3.156	8
		Total for Area 7	120.980	60.342	60.638
Area 8	Carmen WD, Davao del Norte	5.547	3.215	2.332	90
	Datu Paglas WD, Maguindanao	25.610	14.910	10.700	86
	Glan WD, Sarangani	28.000	15.424	12.576	45
	San Isidro WD, Davao Oriental	12.000	4.844	7.156	58
	Total for Area 8	71.157	38.393	32.764	
Area 9	Bacolod Kalawi WD, Lanao del Sur	28.860	20.919	7.941	78
	Balindong WD, Lanao del Sur	21.860	8.892	12.968	64
	Kunalarang WD, Zamboanga del Sur	2.500	1.497	1.003	92
	Madalum WD, LANA DEL SUR	19.440	11.190	8.250	80
	Masiu WD, Lnao del Sur	17.990	8.380	9.610	61
	Pikit WD, North Cotoabato	10.000	6.430	3.570	80

Area	Water District	POW (in million of Php)	Released Total	Unreleased Balance	% of Physical Completion Dec 31, 2011
	Siasi WD, Sulu	10.930	7.510	3.420	93
	Tukuran WD, Zamboanga del Sur	18.000	10.980	7.020	91
	Total for Area 9	129.580	75.798	53.782	
	Grand Total	1,253.517	543.249	710.268	

Table 3.3
List of Water Supply Projects without Fund Releases but Partially Implemented
As of December 31, 2011

Area	Water District	POW (in million of Php)	Released Total	Unreleased	% of Physical Completion Dec 31, 2011
2	Bagac, Bataan	5.000	0	5.000	75
2	San Jose City, Nueva ecija	25.000	0	25.000	79
3	Lian WD, Batangas	5.000	0	5.000	72
4	San Andres WD, Catanduanes	5.300	0	5.300	5
5	Belison WD, Antique	8.220	0	8.220	50
5	Dumarao WD, Capiz	4.760	0	4.760	71
5	Ilog WD, Negros Occ	5.000	0	5.000	70
5	Jordan WD, Guimaras	22.000	0	22.000	5
6	Sibulan WD, Negros Oriental	5.000	0	5.000	70
	Totals	85.280	0	85.280	

Table 3.4
List of Water Supply Projects without Fund Releases and Not Implemented
As of December 31, 2011

Area	Water District	POW (in million of Php)	Released Total	Unreleased	% of Physical Completion Dec 31, 2011
1	Magsingal, Ilocos Sur	28.220	0.00	28.220	0
	Angadanan, Isabela	29.920	0.00	29.920	0
	Balaoan, La Union	27.800	0.00	27.800	0
	Burgos, Isabela	25.000	0.00	25.000	0
	Camalaniugan Cagayan	25.500	0.00	25.500	0
	Magsingal, WD, Ilocos Sur	28.220	0.00	28.220	0
	Marcos WD, Ilocos Norte	30.000	0.00	30.000	0
	Pilar, Abra	16.500	0.00	16.500	0
	San Annel, Isabela	30.000	0.00	30.000	0
	Sta. Lucia, Ilocos Sur	25.000	0.00	25.000	0

Area	Water District	POW (in million of Php)	Released Total	Unreleased	% of Physical Completion Dec 31, 2011
	Tubao WD, La Union	29.920	0.00	29.920	0
	Tumanini, Isabela	20.000	0.00	20.000	0
	Well Drilling Project	25.000	0.00	25.00	
2	Bacolor WD, Pampanga	11.000	0.00	11.000	0
	Cabaio, Nueva Ecija	20.000	0.00	20.000	0
	Cabangan, Zambales	15.000	0.00	15.000	0
	Dingalan WD, Quezon	25.000	0.00	25.000	0
	Dona Remedios Trinidad, Bulacan	20.000	0.00	20.000	0
	Meycauayan, Bulacan	25.000	0.00	25.000	0
	San Luis WD, Aurora	28.000	0.00	28.000	0
	San Marcelino WD, Zambales	15.000	0.00	15.000	0
	San Narciso WD	15.000	0.00	15.000	0
	San Narciso WD Zambales	9.000	0.00	9.000	0
	Talugtug, Nueva Ecija	20.000	0.00	20.000	0
3	Mabitaac, Laguna	20.000	0.00	20.000	0
4	Balud WD, masbate	18.000	0.00	18.000	0
	Camalig WD, Albay	15.000	0.00	15.000	0
	Gubat WD, Sorsogon	25.000	0.00	25.000	0
	Pandan WD, Catanduanes	4.000	0.00	4.000	0
	Polangui WD, Albay	140.000	0.00	140.000	0
	San Miguel WD, Catanduanes	25.000	0.00	25.000	0
	Viga WD, Catanduanes	7.000	0.00	7.000	0
5	Batan WD, Aklan	25.000	0.00	25.000	0
	Bugasong WD, Antique	3.000	0.00	3.000	0
	Libacao WD, Aklan	25.300	0.00	25.300	0
	Mambusao WD, Capiz	25.300	0.00	25.300	0
	Patnongon WD, Antique	20.000	0.00	20.000	0
	Tangalan WD, Aklan	20.000	0.00	20.000	0
6	Basey WD, Samar	10.000	0.00	10.000	0
	Borongon WD, East Samar	25.000	0.00	25.000	0
	Catarman WD, Samar	20.560	0.00	20.560	0
	Dolores WD, Eastern Samar	22.000	0.00	22.000	0
	Gamay WD, Samar	8.500	0.00	8.500	0
	Gandora WD, Samar	20.000	0.00	20.000	0
	Gen. MacArthur WD, Samar	10.000	0.00	10.000	0
	ORAS WD, Samar	14.700	0.00	14.700	0
	Isabel WD, Leyte	14.400	0.00	14.400	0
	Lavezares WD, Samar	15.800	0.00	15.800	0
	Maasin WD, S. Leyte	22.500	0.00	22.500	0
	Pinamungahan WD, Cebu	15.000	0.00	15.000	0
	San isidro WD, Samar	19.500	0.00	19.500	0
	Sta. Margarita WD, Samar	30.000	0.00	30.000	0
	Tabuelan WD, Cebu	25.000	0.00	25.000	0
	Taft WD, Samar	11.790	0.00	11.790	0

Area	Water District	POW (in million of Php)	Released Total	Unreleased	% of Physical Completion Dec 31, 2011
	Victoria WD, Northern Samar	10.000	0.00	10.000	0
	Gigaquit WD, Surigao del Norte	15.890	0.00	15.890	0
7	Laguindingan WD, Misamis Oriental	30.210	0.00	30.210	0
8	Tangub City WD, Misamis Occidental	25.000	0.00	25.000	0
9	Lapuyan WD, Zamboanga del Sur	22.310	0.00	22.310	0
	Totals	1,304.840	0.000	1,304.840	

Table 3.5
Summary of POWs Partially Implemented and Not Implemented
(Taken from Tables 3.2, 3.3 and 3.4)

Particulars	No. of Water Districts	POW	Funds Released to Water Districts	Unreleased
A. Those with fund releases and partially implemented (Table 3.2)				
Area 1	16	493.150	190.839	302.311
Area 2	10	175.500	77.246	98.254
Area 3	2	30.000	23.560	6.440
Area 4	4	86.750	21.218	65.532
Area 5	5	69.470	32.604	36.866
Area 6	3	76.930	23.249	53.681
Area 7	8	120.980	60.342	60.638
Area 8	4	71.157	38.393	32.764
Area 9	8	129.580	75.798	53.782
Total	60	1,253.517	543.249	710.268
B. Those without fund releases but partially implemented (Table 3.3)				
Area 2	2	30.000	0.00	30.000
Area 3	1	5.000	0.00	5.000
Area 4	1	5.300	0.00	5.300
Area 5	4	39.980	0.00	39.980
Area 6	1	5.000	0.00	5.000
Total	9	85.280	0.00	85.280
C. Those without fund releases and not implemented (Table 3.4)				
Area 1	13	341.080	0.00	341.080
Area 2	11	203.000	0.00	203.000
Area 3	1	20.000	0.00	20.000
Area 4	7	234.000	0.00	234.000
Area 5	6	118.600	0.00	118.600
Area 6	17	294.750	0.00	294.750
Area 7	2	46.100	0.00	46.100
Area 8	1	25.000	0.00	25.000
Area 9	1	22.310	0.00	22.310
Total	59	1,304.840	0.00	1,304.840
Grand Total	128	2,643.637	543.249	2,100.388

3.5 For CY 2011, the DBM did not make any fund release the fund for potable water supply project to LWUA. The General Appropriations Act (GAA) for CY 2011 showed the approved capital outlay for the Provision of Potable Water Supply in the amount of ₱1.5 Billion. However, the DBM-approved Corporate Operating Budget of LWUA for CY 2011 showed a reduction of Total Sources of Funds (National Government Subsidy) by ₱1.5 Billion with a footnote saying that the National Government Subsidy for the provision of potable water supply included in the DOH's budget under the GAA for CY 2011 will be implemented

by DOH, DILG and National Anti-Poverty Council. Likewise, the GAA for FY 2011 disclosed that the amount of P1.5 Billion for the provision of potable water supply shall be implemented by the Local Government Units through the execution of a Memorandum of Agreement with DOH, as called for by the Special Provisions of said GAA. Said Act also provided that the Local Government Units shall implement the water projects, in coordination with DOH.

- 3.6 Management explained that PD 198 as LWUA 's Charter is still an effective legal instrument in developing sustainable water utilities as evidenced by the development of more than 500 operational Water Districts directly serving 17.6 million people nationwide. LWUA made adequate representation to national government agencies such as the NEDA and DBM regarding its water supply and sanitation development plan as embodied in its business Plan for years 2012 to 2016
- 3.7 ***We recommended that LWUA should adopt other means to finance the water system projects listed under Table 3.2 that are awaiting additional funds to complete and to make them operational to serve the needs of the intended users.***
- 3.8 Management informed that Audit Team that for CY 2012, the National Government has allocated P700 Million to LWUA as government subsidy and it has already instituted various means to finance Water District Projects including those that are previously suspended, among which are as follows:
- a. Refinancing of Water Districts (WDs) outstanding loans by other financing institutions like DBP and PNB;
 - b. Encouraging WDs to deposit their customers' deposits and/or idle funds with LWUA under the water district Portfolio account;
 - c. Availing of loans from local sources (Land Bank of the Philippines, Philippine Veterans Bank) at the maximum allowable amount of P1.0 Billion;
 - d. The concerned water districts have been advised to get approval for the realignment or reprogramming of their approved Program of Works;
 - e. It has been LWUA's practice to immediately conduct Water Quality tests for all newly drilled well so as to determine whether this could be used as a source of water supply of the WD, and if ever needed, provide water treatment facilities to make it potable;
 - f. LWUA requires to secure water rights for water sources being used by them; and
 - g. The non-revenue water reduction has always been a priority program of every water district in order to determine wastages in the system and convert them into revenues.

- 3.9 Management further informed the Audit Team that for CY 2012, the DBM released P320,873,104 to LWUA to ensure the continuous supply of safe drinking water for impoverished families especially those in the rural and remote areas or to implement further the Potable water Supply Project Level III.
- 3.10 ***We further recommend that before pursuing additional funding for the completion of the partially implemented projects listed in Table 3.2, LWUA should undertake a thorough evaluation of these projects to determine whether the projects are still viable and beneficial to the intended users.***
4. **LWUA's contract with Secur Links Network and Technologies, Incorporated (SLNTI) for the development of the Water District Geographical Information System Database Management System (WDGIS /DBM) project in the amount of P223.88 million, of which the amount of P115.283 million or 52% was paid in March 2011, was found:**
- a. **Not compliant with the requirement that the contract was to be certified by the Department Secretary that it has been entered into in faithful compliance with applicable laws and regulations as required under Sections 4(b) and 5 of Executive Order No. 423 dated April 30, 2005;**
 - b. **Not supported with document(s) indicating that SLNTI was then an exclusive distributor for WDGIS / DMS; and**
 - c. **With partial acceptance for the 50% accomplishment of the project as of April 22, 2010, hence, no evaluation of price reasonableness by COA Technical Audit Specialists could be conducted in the absence of final acceptance specifically of the Application Service Module.**
- 4.1 Review of the Contract entered into and executed by and between the LWUA and the SLNTI last February 19, 2010 for the Development of the Water District Geographical Information System Database Management System (WDGIS /DBM) project in the amount of P223.88M disclosed non-compliance with the existing rules and regulations as discussed below.
- 4.1.1. **The contract was not certified by the Department Secretary that it has been entered into in faithful compliance with applicable laws and regulations as required under Sections 4(b) and 5 of Executive Order No. 423 dated April 30, 2005.**
- 4.1.1.1. In February 2010, LWUA entered into a contract with SLNTI through Direct Contracting, an alternative mode of procurement. But LWUA failed to secure the requisite certification under oath from the DOH Secretary "that the contract has been entered into in faithful compliance with all applicable laws and regulations." Hence, the contract was considered not binding as it lacked the said requisite certification

- 4.1.1.2. Sections 4(b) and 5 of Executive Order 423 dated April 30, 2005 provides:

“SECTION 4 (b) For Government Contracts Involving an Amount below Five Hundred Million Pesos (P500 Million). Except for Government contracts required by law to be acted upon and / or approved by the President, the Heads of the Procuring Entities shall likewise have full authority to give final approval and /or to enter into Government contracts of their respective agencies, entered into through alternative methods of procurement allowed by law. Provided, that the Department Secretary certifies under oath that the contract has been entered into in faithful compliance with all applicable laws and regulations. (Underscoring ours for emphasis)

SECTION 5. Authority to Bind the Government. xxx All Government contracts entered into in violation of the provisions of law, rules and regulations, and of this Executive Order shall be considered contracts entered into without authority and are thus invalid and not binding on the Government.”

- 4.1.1.3. Out of the total contract amount of ₱223,880,000 with the SLNTI, the amount of ₱115,283,250 (net of 10% retention of ₱13,663,200 and 2% EVAT and 5% Withholding tax), was paid to the Contractor on March 23, 2011 under Check No. 4344311 for the supply, delivery and installation of all software and hardware for the development of the WDGIS/DBM. The gross amount of ₱136,632,000 was recorded under Information Technology Equipment (*Account Code 8-79-816*). The payment was acknowledged by Payee thru the issuance of Official Receipt No. 0850 dated March 24, 2011 and was supported by Sales Delivery Receipt No. 688 dated March 22, 2010. The Project WDGIS/DMS was suspended and no further deliveries and money claims were made by SLNT after the payment in March 2011.

- 4.1.2. **There were no documents submitted that would indicate that SLNTI was then an exclusive distributor for the development of WDGIS/DMS.**

- 4.1.2.1 Section 50, Rule XVI of the Implementing Rules and Regulations (IRR) of Republic Act 9184, otherwise known as the Government Procurement Reform Act provides that

“Direct Contracting may be resorted to under any of the following conditions: xxx. c) Those sold by an exclusive dealer or manufacturer which does not have sub-dealers selling at lower prices and for which no suitable substitute can be obtained at more advantageous terms to the Government.

- 4.1.2.2 Relative thereto, the SLNT failed to submit the needed documents that would indicate that they are the exclusive

distributor of the Information System being developed.
Consider:

- a. Dyna Tech Corporation merely certified that SLNT is their exclusive business partner. As business partner, SLNTI was authorized exclusively to sell, market, modify and provide first (1st) line support of the Dynatech Corporation's software package product line such as Water District Geographical Information System and Database, Management System, etc. while Dynatech will provide 2nd line support and software update.
- b. Oracle Corporation likewise certified that SLNT is an Oracle Business Partner and was authorized to sell, market and support the Oracle Product Lines. It has appointed SLNTI to be the exclusive fulfillment partner for the WDGIS/DBM.

4.1.2.3 Therefore, SLNT was not an exclusive dealer as it was by itself acting as a sub-dealer of Oracle Corporation, contrary to the provision of Section 50, Rule XVI of the IRR RA 9184.

4.1.2.4 Failure to prove that SLNT was an exclusive dealer or manufacturer / developer of the Information System would not justify resorting to Direct Contracting. The development of the System should have been therefore subjected to public bidding.

4.1.3. There was only a partial acceptance for the 50% accomplishment of the project as of April 22, 2010, hence, no evaluation of price reasonableness by COA Technical Audit Specialists could be conducted in the absence of final acceptance specifically of the Application Service Module.

4.1.3.1 The COA Technical Audit Specialist conducted review on the technical aspect of the contract and the initial findings and observations are as follows:

- a. There was only a partial acceptance for the 50% accomplishment of the project completion as of April 22, 2010. In the absence of Certificate of Completion and Final Acceptance, the actual validation of the system application installed as to price reasonableness could not yet be performed by the COA Technical Audit Specialists due to the absence of final acceptance specifically of the Application Service Module, i.e.:

- Water Billing System;
- Final Information System; and
- Geographical Information System

- b. The National Computer Center (NCC) Memorandum Circular No. 99-02 dated November 29, 1999 and amended by Memorandum Circular No. 2004-01 dated June 7, 2004 requires the submission of an Information Systems Strategic Plan (ISSP) and the approval / endorsement of the ISSP prior to acquisition of the Information System. Verification disclosed that the LWUA did not comply with the NCC requirements. No copy of the most recent ISSP five - year plan was submitted by LWUA as indicated in the NCC letter to the COA Chairman dated August 17, 2010. The last ISSP received from LWUA was in 1994 covering the period 1994 to 1997.
- c. The submitted copy of the Annual Procurement Program (APP) dated in January 2009 was not signed by the authorized approving authority.
- d. There was no Maintenance Agreement after the Warranty Period. The continuity of the operations of the WDGIS/DBM cannot be sustained if there is no such agreement.

4.2 The Audit Team initially recommended the cancellation of the contract as it was entered into without authority and thus not binding to the government, and return of all delivered software and hardware to the supplier for refund. The Audit Team received the following comments:

- a. Management commented that *“for the decision to cancel the contract, proper recommendation shall be made to the Board of Trustees and upon approval, a formal notice of cancellation must be sent to Secur Links with accompanying demand to withdraw the delivered software and hardware and to correspondingly refund the partial payments made by LWUA. The suggestion however is without prejudice to the comments of the implementing unit with regard to the status of the subject contract.”*
- b. LWUA’s Legal Department also explained that cancellation is difficult to do because of the principle of *quantum meruit*. Similarly, during exit conference with Management in early 2012, the Legal Department Manager stated that based on the principle of *quantum meruit*, cancellation of contract is not feasible.
- c. Management likewise commented that “considering the possibility that judicial recourse may be taken by the affected parties, Management deems it proper to seek first the guidance of the Office of the Government Corporate Counsel (OGCC) on the proper procedural steps to undertake prior to the cancellation of the contract with Secur Links”.

- 4.3 In July 16, 2012, the OGCC, in response to the letter of the LWUA Administrator received on June 26, 2012, replied and we quote:

“xxx. Anent thereto, you seek our guidance on what specific remedial measures must be undertaken in the cancellation of the contract.

With deep regret, please be informed that we cannot convey to you a written guidance or legal advice as remedial measures as not to “telegraph our punches” so to speak, as surely there will be a court litigation that may be initiated by SLNTI in case of cancellation of contract by LWUA,

Nevertheless, suffice it to say that we will handle the case for and in behalf of LWUA as soon as the potential case will be eventually referred to us for handling.

Lastly, it is suggested that a conference with you and our OGCC lawyer assigned to LWUA be set or scheduled to discuss LWUA’s concerns relative to the contract you executed with SLNTI which became the subject of Notice of Disallowance.”

- 4.4 We gathered that the matter has been handled by the lawyer/consultants of LWUA for the possible filing of administrative and civil case with the Office of the Ombudsman. In September 22, 2011 the Office of the Ombudsman issued *Subpoena Duces Tecum* to LWUA in relation to SLNT’s WDGIS/DMS, for the submission of pertinent documents.

- 4.5 ***Considering the foregoing, we recommend that Management immediately resolve the case with SLNTI with the assistance of the OGCC, in the best interest of LWUA.***

5. **Procurement of three units of inflatable ribbed/rubber boats and Reverse Osmosis Mobile Water Treatment was done through Limited Source Bidding without any documentation of compliance with Sections 49.1 Rule XVI of IRR of RA 9184.**

- 5.1 Our audit of the procurement of three units of inflatable ribbed/rubber boats disclosed the following:

- a. Based on the records on file, the LWUA Bids and Awards Committee conducted limited source bidding in the procurement of the three units of inflatable ribbed/rubber boats in the amount of ₱2,155,500. It invited three prospective bidders to submit bids for the said procurement.
- b. However, there was no documentation submitted on how the three invited bidders were selected by the BAC. There were also no records to show that all the three pre-selected bidders possessed known experience and proven capability to supply the subject goods. Thus,

there was no showing that procurement through limited source bidding met the requirements under Section 49.1 Rule XVI of the IRR of RA 9184, which states that

“ limited source bidding is a method of procurement that involves direct invitation to bid from a list of pre-selected suppliers with known experience and proven capability on the requirements of the particular procurement. The pre-selected suppliers shall be those appearing in a list maintained by the relevant government authority that has expertise in the type of procurement concerned.”

- c. The LWUA commented that for future procurement, it will ensure compliance with the provisions of RA 9184 particularly on the provisions pertaining to the procurement using the alternative methods of procurement.

5.2 In the procurement of Reverse Osmosis Mobile Water Treatment thru negotiated procurement in the amount of P15 million, our audit disclosed the following:

- a. There were no documents submitted to show that pre-procurement conferences were conducted as required under Section 20.1 Rule VII of the IRR of RA 9184 which provides that:

“Prior to advertisement or the issuance of the Invitation to bid/Request for Expression of Interest for each procurement undertaken through a public bidding, the BAC, through its Secretariat, shall call for a pre-procurement conference.

- b. Pre-procurement conference is required under Section 20 Rule VII of the IRR of RA 9184 in the procurement of goods through public bidding costing above P2 million for the following procurement:

- units diesel fed van type vehicles, and
- Supply and installation of the water cooled centrifugal chiller.

5.3 ***We recommended that Management need to assess and review LWUA’s policies on ensuring effective competition in the bidding process for purpose of promoting economy. We also recommended that Management ensure strict compliance with pertinent provision of RA 9184.***

5.4 No comments were received from the Management.

6. **Actual expenses for Personal Services in CY 2011 exceeded the DBM-confirmed Corporate Operating Budget (COB) by ₱189.98 million contrary to Section 4(1) of PD 1445 due to inclusion of allowances and benefits without legal basis or subject to certain conditions.**

- 6.1 Review of the LWUA Statement of Income for the year ended December 31, 2011 showed actual expenses for Personal Services of ₱517,365,941.31 or a variance of ₱190,031,609.36 when compared with the DBM-confirmed budget of ₱ 327.388,000.
- 6.2 Comparison of the DBM-confirmed Budget with the actual expenses for CY 2011 is shown below:

Table 6.1
Comparison of Approved Budget and Actual Expenses for Personal Services
For CY 2011

<i>Personal Services</i>	<i>DBM Approved Budget</i>	<i>Actual Expenses</i>	<i>Savings (Excess)</i>
Other Bonuses and allowances			
Board Per Diem	1,512,000.00	1,530,800.00	(188,800.00)
13 th Month pay and other bonuses	18,032,000.00	83,719,197.33	(65,687,197.33)
Salaries and Wages – Regular	201,605,000.00	200,100,473.52	1,504,526.48
Additional Compensation			
Cost of Living Allowance		77,128,363.32	(77,128,363.32)
Amelioration allowance		19,259,838.60	(19,259,838.60)
Meal allowance	11,702,000.00	22,945,800.00	(11,243,800.00)
Children’s allowance	201,000.00	195,120.00	5,880.00
Other Personnel Benefits:			
Executive check up		771,455.5	(771,455.50)
Hospitalization & Other medical benefits	1,180,000.00	9,028,788.45	(7,848,788.45)
Guaranty Pay / Terminal Leave Benefits	40,000,000.00	5,664,968.85	(34,335,031.15)
Provident Fund Contribution		33,121,499.26	(33,121,499.26)
PERA	14,232,000.00	13,677,331.04	554,668.96

<i>Personal Services</i>	<i>DBM Approved Budget</i>	<i>Actual Expenses</i>	<i>Savings (Excess)</i>
Life and retirement insurance contributions	24,089,000.00	22,964,647.31	1,124,352.69
Representation and Transportation allowance	8,880,000.00	20,159,617.15	(11,279,617.15)
Clothing / Uniform allowance	2,372,000.00	3,544,000.00	(11,172,000.00)
Philhealth contributions	2,159,000.00	2,070,175.00	88,825.00
Pagibig contributions	712,000.00	742,200.00	(30,200.00)
ECC Contributions	712,000.00	685,165.98	(26,834.02)
Study Grant and Scholarship		1,500.00	(1,500.00)
Honoraria		55,000.00	(55,000.00)
	327,388,000.00	517,365,941.31	(189,977,941.31)

6.3 The subject COB contained a remark “no legal basis” for certain items as listed below.:

<i>Allowance/Benefit</i>	<i>Reasons Provided by the DBM</i>
Cost of Living Allowance (COLA)	Already integrated into the standardized salary rate of government employees per SCRA 1 (2010)
Amelioration Allowance	Already integrated into the standardized salary rate of government employees per SCRA 1 (2010)
Provident Fund	Subject to the provisions of Item 5.3.2 of BC No. 2008-3, Government monetary contribution cannot be given pending issuance of DBM Guidelines.
Financial Assistance	No Legal basis
Year-end Assistance	No Legal basis
Cash Gift for Birthday Celebrators	No Legal basis
Educational Assistance	No Legal basis
Grocery Allowance	No Legal basis

- 6.4 On the other hand, there was an excess provision for Representation and Transportation Allowance (RATA) in the amount of P11,279,617.15 (See Table 6.1). As contained in the DBM-approved COB for CY 2011, the DBM remarked that RATA for incumbents as of June 30, 1989 is computed at 40% of basic salary per Letter of Implementation (LOI) No. 97; that personnel hired thereafter shall be entitled to RATA in accordance with the rates provided under Section 51, General Provisions of Republic Act No. 10147, the General Appropriations Act for CY 2011; and that transportation allowance shall not be granted to officials who are assigned with or presently using government motor vehicles.
- 6.5 As mentioned and provided for under the DBM–confirmed COB for CY 2011, allowances, (COLA and AA), honoraria, and other fringe benefits such as Financial Assistance, Year-end Assistance, Cash Gift for Birthday Celebrations, Educational Assistance, and Grocery allowance shall be subject to the approval of the President upon recommendation of the DBM pursuant to Section 5 of PD 1597 which states that:

“allowances, honoraria, and other fringe benefits (underscoring for emphasis) shall be subject to the approval of the President upon recommendation of the DBM. “

To date, however, the DBM has not recommended the granting of the above mentioned allowances.

- 6.6 The allowances enumerated above are of the same nature of allowances received in prior years. COA had already issued various Notices of Disallowance (NDs) on these allowances paid in prior years and for which Management subsequently submitted their appeal accordance with the Revised Rules of Procedure of COA.
- 6.7 As of June 30, 2012, allowances/benefits without legal basis totaling P293 million have been disallowed by the COA LWUA Team. Table below shows the NDs issued in prior years relating to unlawful benefits and the status of their appeals.

Table 6.2
List of NDs Issued on Allowances and Benefits
For CYs 2009 to 2010

<i>ND #</i>	<i>Allowance/Benefit</i>	<i>Amount of Disallowance</i>
10-005-CF- (09) dtd 12/9/2010	Year-end Financial Assistance (YEFA)	27,397,209.92
10-006-CF (09) dtd 12/10/2010	Anniversary Incentive Bonus (AIB)	46,853,795.94
10-003 CF (09) dtd 12/8/2010	Mid Year Financial Assistance (MYFA)	23,170,340.80
09-001- CF (10) dtd 10/14/2010	Representation Allowance and Transportation Allowance for Board of Trustees (RATA BOT)	1,190,200.00

NS-09-ICG-002-11 dtd 10/26/2011	Economic Assistance (EA)	34,143,000.00
12-001-icg (10) dtd 2/10/2012	Cost of Living Allowance (COLA) 2010	70,922,176.86
12-002-ICG-(10) dtd 2/10/2012	Amelioration Allowance (AA) 2010	17,591,397.07
12-003-ICG (10) dtd 6/28/2012	Grocery Allowance (GRO)	36,035,047.61
12-004-ICG (10) dtd 6/27/2012	YEFA	35,786,881.70
	Total	293,090,049.90

6.8 Management commented that the granting of disallowed benefits such as Anniversary Incentive Bonus, Mid-Year Financial Assistance, Year-End Financial Assistance and RATA of the Board of Trustees were discontinued in the second half of 2011. The granting of Cost of Living allowance, Amelioration allowance, Mid-year financial assistance equivalent to one-month gross pay were discontinued in 2012. Likewise, Uniform allowance was reduced to P4,000 in same year, and additional comments are shown in Note 26 of Notes to Financial Statements.

6.9 ***We are pleased to note that Management discontinued the grant of Anniversary Bonus effective September 2011, and of COLA, amelioration allowance, mid-year financial assistance effective February 2012; and reduction of uniform allowance to the allowed amount of P4,000 effective January 2012.***

6.10 The Audit Team will issue the necessary Notice of Disallowance for the subject allowances/benefits paid to LWUA officers and employees for CY 2011

7. **LWUA continued the grant of multi-purpose and calamity loans to its officers and employees totaling P29.576 million in CY 2011 using the Corporate Fund, despite the prohibition under Section 4(2) of PD 1445. Moreover, only 16.07% of the outstanding loans receivable from LWUA officers and employees which were previously granted despite having no legal basis, was collected during the year.**

7.1 Section 4(2) of PD 1445 provides that government funds or property shall be spent or used solely for public purposes.

7.2 Review and verification of the transactions under Loans Receivables-Officers and Employees Accounts revealed that Management exerted efforts to intensify its collections on various loans granted to officers and employees, who were still active in the service, including officers and employees who already retired, separated and dismissed from the service.

7.3 However, the total collections made during the year amounted to only P40,634,443.58 representing 16.07% of the total outstanding loans receivable balance of P252,886,422.71, as shown in Table 7.1.

Table 7.1
Loans Receivable-Officers and Employees
Collections against Year-end Balances

Loan Account	Receivables Bal.-Beg. 31-Dec.-10	Transaction during the year	Total Outstanding Loans Receivables . Bal.	Collections	Receivables Bal.-End 31-Dec.-11	Percent of Collections over Receivables
Housing Assistance Loan	890,236		890,236	17,000	873,236	1.91%
Calamity Loan Assistance .	24,957,234	85,145	25,042,379	4,361,942	20,680,437	17.42%
Multi-Purpose Loan	197,463,322	29,490,483	226,953,805	36,255,500	190,698,305	15.97%
Total	223,310,792	29,575,628	252,886,420	40,634,442	212,251,978	16.07%

7.4 It was noted that for Housing Assistance Loan, only one LWUA employee paid the loan for P17,000.00 in CY 2011. This loan remained uncollected for more than ten years and are of doubtful collectivity. Moreover, there were several loans granted to officers and employees who were already separated from the service, as shown in Table 7.2.

Table 7.2
Loans Receivable-Officers and Employees
Outstanding Loans of Separated LWUA Employees
As of December 31, 2011

Loan Account	Loans of Separated LWUAns	Percent To Total Loans	Loans aged over 10 years
Housing Assistance Loan	873,236.69	100.00%	873,236.69
Calamity Loan Assistance	807,857.92	3.91%	none
Multi-Purpose Loan	5,623,776.59	2.95%	none
Total	7,304,871.20	3.44%	873,236.69

- 7.5 LWUA justified the granting of this type of loans to its employees by invoking Section 31, Chapter 5, Title 1, Sub-Title A, Book V of Executive Order 292 (Administrative Code of 1987) which requires government agencies to provide employee's health, welfare, counseling, recreation and similar services. By virtue of Board Resolution No. 158, s. 1995, LWUA Board of Trustees approved the establishment of a Multi-Purpose (Motor Vehicle or House/Lot) Loan Program (MPLP) with an objective to increase the attractiveness of employment in order to decelerate the turnover of personnel who had already been trained by the agency and to uplift and improve the living standards of LWUA personnel to enhance their efficiency in the delivery of public service. Further, under Board Resolution No. 265, s. 2001, LWUA expanded the Multi-Purpose Loan Program (MPLP) established under its Resolution No. 158, s. 1995, to include loans for business opportunities and other endeavors not contrary to law and at the same time increasing the maximum loanable amount, subject to the provision of sufficient and acceptable collateral(s) to secure the loan and protect the interest of LWUA as Lender.
- 7.6 As contained in the 2003 Annual Audit Report, the mandate under Administrative Code of 1987 is the provision of basic services for the employees' health, welfare, counseling, recreation and similar services such as clinics, canteen, gym, employees lounge, library, day-care center for working mothers but it does not cover monetary benefits.
- 7.7 Moreover, in the DBM-confirmed COB for CY 2011, the funds in the amount of P29.5 million granted as Multi-Purpose Loan was not included as confirmed by the DBM.
- 7.8 In the prior years audit observation pertaining to the Loans Receivables-Officers and Employees in CYs 2007-2010, it was recommended that Management intensify collection of overdue accounts; send demand letters and institute legal action, and if necessary; enforce sanctions provided in the provisions of the loans/mortgage contracts, such as foreclosures of collaterals of the separated officers and employees.
- 7.9 Management commented that the grant / implementation of Multi-purpose loan is currently on hold. LWUA, through the Legal Department, has foreclosed the Property mortgaged by former Trustee Feria. At present, LWUA is waiting for the release of Certificate of Sale of Judge Rose Marie Manalang Austria of the Regional Trial Court Branch 87 (Batangas). The amortization of the Multipurpose Loan Program has been suspended to alleviate the financial condition of LWUA employees after the granting of COLA was stopped by LWUA.

7.10 ***We recommend the following:***

- a. ***Stop the granting of loans to LWUA officers and employees as this is prohibited under Section 4(3) of PD 1445 which provides that government funds shall be spent or used solely for public purposes;***
- b. ***Restore the salary deduction for the amortization of the multi-purpose loans of LWUA officers and employees concerned;***

- c. ***Institute the necessary legal action against those who fail to pay their loans; and***
- d. ***Intensify collection campaign for receivables from officers and employees.***

7.11 It is informed that the Audit Team shall issue the necessary Notice of Disallowance for the continued grant of multi-purpose and calamity loans using Corporate Fund in CY 2011 despite the prohibition against payments that could not be considered as public purpose.

8. Outstanding cash advances totaling ₱2.857 million representing 56% of the year-end balance of P5.122 million remained unliquidated although its purposes had already been served contrary to the provisions of Section 89 of PD 1445 and COA Circular No. 97-002.

8.1 Section 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. On the other hand, COA Circular No. 97-002 dated February 10, 1997 provides for the specific time frame for the liquidation of cash advance, to wit:

- a. Maintenance and Other operating expenses – as the purpose for which it was given had 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.

8.2 The Cash Special Disbursing Officer (SDO) account as of December 31, 2011 showed a balance of ₱5,122,335.37 which includes release of funds to different SDOs for seminars, programs, liaison work/activities/coordination and projects. Out of the total Cash Advances, ₱2,856,579.77 remained outstanding even if the purpose for which it was granted had been served.

8.3 Analysis of the account showed the following:

- a. There were cash advances for well-rilling projects in the amount of P2,103,203.86 which remained unliquidated when the projects have been completed.
- b. Cash Advance granted on November 2010 in the amount of ₱299,855.25 to defray expenses in liaison work/activities/coordination with DPWH, DOH, DBM, DOF and other government agencies to facilitate and expedite the appropriation, approval and release of funds for all the LWUA provincial water supply projects remained outstanding.

- c. Cash advance to defray expenses in LWUAs' participation in the celebration of World Water Day on March 22, 2011 in the amount of ₱230,000.00 remained outstanding.
- d. An employee who retired last September 18, 2009 was granted clearance despite having outstanding cash advance of ₱156,047.76. This was a previous year's audit observation.
- e. Other cash advances granted for specific purpose in the amount of ₱67,472.90 still remained outstanding even if the purposes which they were granted had been long served.

8.4 ***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.***

8.5 In this regard, we invite your attention to COA Circular No. 2012-004 dated November 20, 2012 treating on the demand for the immediate liquidation and settlement of all cash advances outstanding as of Dec. 31, 2011 Under its Section 9.1, *“Failure of the accountable officer to liquidate his outstanding cash advance shall constitute a valid ground for the filing of malversation charge under Article 217 xxx.”*

8.6 Management commented that the immediate liquidation of cash advances were required from the accountable officers. The salaries of those who failed to settle their accountabilities were withheld.

9. **Advances to Water Districts in the amount of ₱24.219 million for Typhoon Reming Rehabilitation Projects were still outstanding even though the projects have been completed while ₱2.348 million remained dormant for 12 to 17 years.**

9.1 The *Advances to Water District* account in the amount of P26,567,482.66 as of December 31, 2011 pertained to the release of funds to various Water Districts mainly for Typhoon Reming Rehabilitation Projects and Earthquake Rehabilitation Fund. These Advances are subject to liquidation as soon as the purpose for which it was given has been served.

9.2 The list of water districts with outstanding advances for projects already completed for CYs 2010 and 2011 is shown in Table 9.1 below.

**Table 9.1
List of Water Districts with Outstanding Advances for Completed Projects
For CYs 2010 and 2011**

<i>Water District</i>	<i>Date Granted</i>	<i>Purpose</i>	<i>Amount (in Php)</i>
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Baao, Camarines Norte Water District	4-18-07	Typhoon Reming Rehabilitation Project	1,923,000
Camalig, Albay Water District	4-18-07	-do-	2,880,000
Daraga, Albay WD	4-17-07	-do-	5,014,300
Legaspi City WDLigao	6-28-09	-do-	6,240,000
Ligao-Oas, Albay WD	4-17-07	-do-	3,840,000
Pili, Camarines Norte	4-17-07	-do-	1,442,000
Tabacco, Albay WD	4-24-07	-do-	2,880,000
Total for December 31, 2010 and December 31, 2011			24,219,300

- 9.3 On the other hand, shown in Table 9.2 is the list of water districts with dormant Advances to Water Districts for the last 12 to 17 years. There was no change in the amount of dormant accounts for CYs 2010 and 2011:

Table 9.2
List of Water Districts with Dormant Advances
As of December 31, 2011

<i>Water District</i>	<i>Date granted</i>	<i>Purpose</i>	<i>Amount</i>
Agoo, La Union	5-31-99	Earthquake Rehabilitation Fund	1,905.85
Bacolor, Pampanga	5-31-99	Earthquake Rehabilitation Fund	22,760.38
Baguio City	5-29-91	Earthquake Rehabilitation Fund	450,827.08
Buenavista, Iloilo	6-30-98	Turn-over Fund Take-over Fund	252,862.76
Camarines Norte	10-15-91	Earthquake Rehabilitation Fund	10,000.00

Dagupan City	5-31-91	Earthquake Rehabilitation Fund	472,956.46
Dingras, Ilocos Norte	5-31-91	Earthquake Rehabilitation Fund	34,248.00
Mabalacat, Pampanga	5-31-91	Earthquake Rehabilitation Fund	265,244.83
Moncada, Tarlac	08-91-91	Earthquake Rehabilitation Fund	425,247.83
Olongapo City	02-04-92	Mt Pinatubo Earthquake Rehabilitation Fund	239,984.76
PMA Earthquake Rehabilitation Program	04-15-92	Earthquake Rehabilitation Fund	1,141.26
Rosario, La Union	5-31-91	Earthquake Rehabilitation Fund	5,976.25
San Fernando, Pampanga	7-30-91	Earthquake Rehabilitation Fund	131,023.75
San Ildefonso	10-11-93	LWUA Grant	20,000.00
Subic, Zambales	10-28-91	Mt Pinatubo Earthquake Rehabilitation Fund	14,003.30
Total			2,348,182.51

- 9.4 These fund releases to water districts are treated as cash advances to water districts which the latter should liquidate. Responsibilities of the (1) LWUA as the source agency of rehabilitation funds and (2) of the water Districts as the implementing agency (IA) of such funds are spelled out clearly under COA Circular No. 94-013 dated December 13, 1994. This Circular also deals on the subject rules and regulations in the granting, utilization and liquidation of funds transferred to implementing agencies.
- 9.5 We brought to the attention of Management the issue on the unliquidated advances to Water Districts in the CY 2009 and 2010 Annual Audit Reports and we were then informed that necessary adjustments would be made as soon as the required liquidation documents are made available to support appropriate entries in the books of account. To date, Management has not taken action on our audit recommendation.
- 9.6 ***We recommend that Management require the water districts concerned to immediately submit liquidation documents on the cash advances for rehabilitation funds, and enforce the necessary sanctions against those who continue to disregard the liquidation requirement.***
- 9.7 No comment was received from the Management.

10. **Management failed to submit for audit data on fund release to each of the water districts.**

10.1 Management could not readily provide information on the total amounts released and the source of the funds to each Water District / municipalities for current years 2009 to 2011. Despite our repeated requests for such information, on March 22, 2012 and April 12, 2012, we have not yet received the requested data which will be used in determining the water districts that are fully funded and those that have insufficient funding.

10.2 ***We recommended that Management maintain up-to-date information on how much have been released to each recipient Water District out of the National Government Subsidy or the Corporate Fund, as these data are very useful in determining Water Districts that could not pursue their water supply projects because of insufficient funding, among other purposes.***

10.3 Management had not submitted comment on this issue.

11. **The Annual GAD Plans and Programs for CY 2011 was not submitted to NCRFW for review and endorsement as prescribed under Section 5.1 of Joint Circular No. 2004-1. Moreover, LWUA GAD Focal Point Accomplishment for CY 2011 did not meet the desired target performance for GAD Administered Programs/Activities as some activities were scrapped or postponed due to austerity measures of LWUA, resulting in incurrence of GAD expenses of only P29,756.35 or 0.46% of the total budget.**

11.1 Joint Circular No. 2004-1 dated April 5, 2004 of the Department of Budget and Management (DBM), National Economic and Development Authority (NEDA) and the National Commission on the Role of Filipino Women (NCRFW), now Philippine Commission on Women under the Office of the President, requires and provides guidelines for the preparation by agencies of an Annual GAD Plan, which should include activities that are either client-focused or organization-focused, Budget and Accomplishment Report to implement programs/activities/projects related to Gender and Development (GAD) as embodied in the General Appropriations Act (GAA).

11.2 Section 5.1 of this Joint Circular provides that:

“Agencies shall submit their Annual GAD Plans and Budgets to NCRFW for review and endorsement prior to the submission of the Agency Budget Proposal. The DBM shall return to the agencies their annual GAD plans and budget if they do not have endorsements of the NCRFW.”

11.3 Review of LWUA’s Corporate Operating Budget for CY 2011 disclosed that the budget for GAD Administered Programs under Outside Training and Seminars Account was P6.4M.

- 11.4 LWUA GAD Focal Point prepared Plans and Budget for CY 2011 but did not submit the same to National Commission on the Role of Filipino Women (NCRFW) for review and endorsement as required under Section 5.1 of Joint Circular No. 2004-1.
- 11.5 Comparative analysis of the Budget Appropriations for CY 2010 and 2011 showed that the Budget Appropriations for GAD Administered Programs/Activities fell short of the amount required under the Annual General Appropriations Act. In CY 2011, the LWUA GAD Focal Point slowed down in the implementation of its plans and activities in view of LWUA Austerity Measures. As such, GAD expenses incurred in CY 2011 amounted to only P 29,756.35 or 0.46% of the total approved budget for GAD –administered programs of P6,400,000.
- 11.6 As shown in GAD Plans and Accomplishment Report for CY 2011, the following activities were undertaken:
- a. Launching of project “Bisitahan” in line with the celebration of International Women’s Month last March 2011;
 - b. Ugnayan sa Tubig Forum in coordination with the Public Affairs Department and the San Carlos City Water District last June, 2011;
 - c. Gender Participatory Audit Briefing, in coordination with the Water Resources Research and Training Department last July, 2011;
 - d. Orientation and Committee meetings from January to July, 2011.”
- 11.7 ***We recommended that Management enhance and implement the plans/activities in accordance with the budget as authorized under Annual General Appropriations Act and strictly comply with the requirements set forth under Joint Circular No. 2004-01.***
- 11.8 Management has not submitted comment.

12. Status of Audit Disallowances and Suspensions as of December 31, 2011

- 12.1 Based on the Notice of Disallowances issued, total audit disallowances found in the audit of various transactions of the LWUA, as of December 31, 2011 amounted to P942,729,993.13. Notice of Suspensions issued totaled P34,143,000. There was no Notice of Charge issued as of December 31, 2011. Details are shown in Table 12.1

Table 12.1
List of Notices of Disallowances/Suspensions:
As of December 31, 2011

Notice of Disallowance/Suspension			Amount Disallowed	Status
Date Issued	ND/NS No.	Expense Disallowed and Reasons for Disallowance		
Dec.09, 2010	10-005-CF- (09)	Year-end Financial Assistance – No Legal Basis as confirmed by DBM	27,397,209.92	For Decision of Cluster Director
Dec. 10, 2010	10-006-CF (09)	Anniversary Incentive Bonus – Not a milestone year	46,853,795.94	-do-
Dec. 08, 2010	10-003 cf (09)	Mid -Year Financial Assistance - No Legal Basis as confirmed by DBM	3,170,340.80	-do-
Oct. 14, 2010	09-001-cf (10)	RATA for Board of Trustees – Only Per Diem are allowed for Board of Trustees	1,190,200.00	-do-
Oct. 21, 2010	10-002-CF-(07)	Extraordinary and Miscellaneous Expenses (EME) for 2007 – Absence of Officials Receipts, only certifications	18,437,438.00	For Decision of COA Commission Proper
Dec. 07, 2010	10-004-cf- (08)	EME 2008 Absence of Officials Receipts, only certifications	20,411,947.05	-do-
Sept. 13, 2011	11-004-CF-(09)	EME 2009 Absence of Officials Receipts, only certifications	25,265,990.92	For Decision of Cluster Director
Aug. 2011	11-001-ICG- (09)	Express Savings Bank, Inc. (ESBI) – Investments not in accordance with Monetary Board Resolutions disallowing the transfer of 60% share of total voting share of ESBI to LWUA.	80,003,070.50	No appeal memorandum by persons liable
Aug. 2011	11-002-ICG-(09)	ESBI - -do-	400,000,000.00	No appeal memorandum by persons liable
Aug. 2011	11-003-ICG-(09)	ESBI - Cash deposit to private depository banks contrary to DOF Department Order No. 27-05	300,000,000.00	For Decision of Cluster Director
Total NDs as of Dec. 31, 2011			942,729,993.13	

Notice of Disallowance/Suspension			Amount Disallowed	Status
Date Issued	ND/NS No.	Expense Disallowed and Reasons for Disallowance		
Oct. 26, 2011	NS-09-ICG-002-11	Economic Assistance	34,143,000.00	For issuance of ND
Total NS and ND as of Dec 31, 2011			976,872,993.13	

- 12.2 From March 18, 2004 to July 22, 2009, prior to the effectivity of the Rules and Regulation on Settlement of Accounts RRSA under COA Circular No. 2009-006 dated September 15, 2009, COA records disclosed that several transactions totaling 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 Revised Rules of Procedure of COA.

B. STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATION

Out of the 28 audit recommendations embodied in previous year’s Annual Audit Report, 20 were implemented and eight were not implemented as shown in the following table:

Audit Observations	Recommendations	Action taken/Comments															
<p>1. Financial assistance to WDs of P2.4 billion, or 52% of carrying amount of total receivables, was recognized as claimed from National Government despite absence of legal basis or document to support claim. Similar observation in 2009 Annual Report.</p> <p>Only verbal commitment from Office of the President thru the Presidential Social Fund for release of P6 billion for water supply projects.</p> <p>No PSF fund was received but funds continued to be released to WDs using LWUA corporate funds of P1.17 billion in 2010.</p>	<p>-Reversal of entries & releases to WDs be treated as loans receivable instead of grants.</p> <p>-Financial assistance to WDs be funded from intended sources.</p> <p>-BOT prior approval for corporate funds utilized for other purpose.</p> <p>-If releases of PSF no longer feasible due to change in Administration, LWUA to find ways & means to meet financial commitments to WDs & adjust its books.</p> <p>If releases to WDs can not be implemented, to take other course of action to recover funds released.</p> <p>Otherwise, persons responsible for disbursements without authority to charge it from non-existing fund to be held liable.</p>	<p>Not implemented</p> <p>The financial assistance previously reported as Receivables from National Government was reclassified to Accounts Receivable - Water Districts. However, no documents were attached showing concurrence of the Water District.</p> <p>Notice of Suspension No. 13-001(CF) 11 dated March 5, 2013 was issued requiring submission of Memorandum of Agreement/Loan Agreement/Financial Assistance Contract/ to support the recording of Accounts Receivable in the books.</p> <p>Finding No. 12</p>															
<p>2. Cash of P0.640 billion not sufficient to cover all LWUA recognized trust liabilities of P1.973 billion, consisting of:</p> <table border="0" data-bbox="194 1669 609 1900"> <tr> <td>Due GOCC-</td> <td>P</td> <td>0.169 B</td> </tr> <tr> <td>Due to BIR-</td> <td></td> <td>0.054</td> </tr> <tr> <td>Guaranty deposits payable-</td> <td></td> <td>0.061</td> </tr> <tr> <td><u>Other payables</u></td> <td></td> <td><u>1.689</u></td> </tr> <tr> <td><u>Total</u></td> <td><u>P</u></td> <td><u>1.973B</u></td> </tr> </table>	Due GOCC-	P	0.169 B	Due to BIR-		0.054	Guaranty deposits payable-		0.061	<u>Other payables</u>		<u>1.689</u>	<u>Total</u>	<u>P</u>	<u>1.973B</u>	<p>GAA provides that trust funds shall not be paid out except for fulfillment of purpose for which fund was received.</p> <p>Grants/subsidies received from NG for waterworks programs should be recorded as Trust account (Liability for special funds) upon receipt.</p> <p>WD Portfolio accounts deposited by WDs as reserve funds to</p>	<p>Implemented</p>
Due GOCC-	P	0.169 B															
Due to BIR-		0.054															
Guaranty deposits payable-		0.061															
<u>Other payables</u>		<u>1.689</u>															
<u>Total</u>	<u>P</u>	<u>1.973B</u>															

Audit Observations	Recommendations	Action taken/Comments
<p>WD Portfolio Fund balance of P1.9 million was not enough to pay maturity / termination value of WD of P154.3 million.</p>	<p>ensure repayments of their obligations.</p> <p>Monitor cash flows to ensure that trust funds are disbursed solely for intended purpose & strictly adhere to GAA.</p>	
<p>3. The accuracy and reliability of the balance of the Liability for Special Fund account in the amount of P1.02B is doubtful due to staled / cancelled & unreleased checks of P103.3 million (based on Monthly Report of Cancelled/Spoiled checks) not adjusted back to cash resulting in understatement of both Cash in Bank & Liability for Special Fund accounts & overstatement of Loans Receivable to Water Districts.</p> <p>Management could not explain the need for preparing checks, recording them in books but not releasing them to WDs until they become stale. Actual practice is to prepare checks when actual payments are made.</p>	<p>Stop the practice of preparing checks but not releasing them and consider procedure of immediately issuing out signed checks, especially those payable to WDs & chargeable to Liability for Special Fund account, & to adjust stale checks not recorded in LWUA books.</p>	<p>Implemented</p>
<p>4. Difference of P582 million between book balance of foreign loans of P3.419 billion (ADB and KFW) against amounts confirmed by bank of P2.837 billion (books overstated).</p>	<p>Regularly reconcile balances.</p>	<p>Not implemented</p> <p>Reiterated in Comments and Observations # 1</p>
<p>5. Erroneous posting from the Journal Voucher Register 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 remained uncorrected at the end of the year resulting in the discrepancy of P114.89 million</p>	<p>Management 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 to submit a clarification on how the account balance for Cash in Bank and Liabilities for Special Fund were</p>	<p>Implemented</p>

Audit Observations	Recommendations	Action taken/Comments
<p>between the General Ledger balance and the Trial Balance/Balance Sheet of the said two accounts.</p>	<p>arrived at considering the error in posting in the General Ledger.</p>	
<p>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. Bank statements for the Cash in Bank Collection Fund account and the LWUA Nippon Joseguido Sekkei (NJS) Joint Account were not updated. .</p> <p>Four (4) bank accounts still remain in the books but were either inactive or closed & not confirmed by banks.</p>	<p>Update the monthly bank reconciliation statements for the Collect Fund Account and LWUA NJS Joint Account to properly report the corrected cash in bank balances. For closed accounts still appearing in the books, proper representation with the bank should be undertaken for the retrieval of the bank statements and for corresponding adjustments.</p>	<p>Implemented</p>
<p>7. Of the total Advances to WDs of P26.5 million for funds released for earthquake rehabilitation; P24.2 million remained outstanding even if project have been completed & P2.3 million remained dormant for more that 10 years.</p>	<p>Exert effort to require the concerned water district to liquidate their respective advances and to facilitate the immediate processing of the liquidation vouchers submitted in order to update their accountability.</p>	<p>Not implemented; Reiterated in Comments and Observations # 9</p>
<p>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.</p>	<p>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.</p>	<p>Implemented</p>
<p>9. Unreconciled difference of P1.38 million between payroll fund book balance of P1.47 million (for payment of salaries & allowances of cadet engineers) vs Disbursing Officer (DO) cashbook of P85,858.</p>	<p>Reconcile the Accounting records with the Disbursing Officer's cash book so that the final accountability, if any, could be determined.</p>	<p>Implemented</p>

Audit Observations	Recommendations	Action taken/Comments
<p>10. Investments of P480M is still not terminated/recovered despite Bangko Sentral ng Pilipinas (BSP) Monetary Board (MB) resolutions, which disallowed transfer of 60% share of total voting stock of ESBI to LWUA and directed ESBI to return all government deposits from various government agencies</p>	<p>Terminate the investments and institute remedial measures to recover the return of the P489M investments and the P300M 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.</p>	<p>Not implemented Notice of Disallowance Nos. 11-001 to 11-003 dated August 22, 2011 were issued.</p> <p>LWUA's investments and deposits is now under receivership with the PDIC</p>
<p>11. Securing a loan in the amount of P500 Million from the Philippine Veterans Bank while allowing cash deposit of P300 M to remain idle in a thrift bank, ESBI, did not constitute a sound fund management resulting in a lower interest income earned of P2.7 M and unnecessary interest expense of P16 M.</p>	<p>Close the deposit accounts with the ESBI bank amounting to P300M in compliance with the DOF Department Order 27-05 and use the fund in financing the water supply projects before renewing and securing new loans with other banks.</p>	<p>Implemented</p>
<p>12. Grants/subsidies received from NG of P399 million remained unutilized, thus defeating purpose for which it was granted.</p>	<p>Transfer the funds to the intended beneficiary Water Districts in accordance with the conditions in the Special Provisions of the General Appropriations Act of CY 2009 to achieve the purpose for which the funds were granted.</p> <p>Appropriate adjusting entry be taken up in the books to records any cancellation of checks.</p>	<p>Implemented</p>
<p>13. P671.86 million due to NG for 2008 not booked & remitted, as request was made to DOF for LWUA's exemption from</p>	<p>Recognize dividends payable pending approval of exemption from dividend declaration from the DOF</p>	<p>Implemented</p>

Audit Observations	Recommendations	Action taken/Comments
dividend remittances.		
<p>14. Purchase of 100 units portable water quality testing equipment for P109.9 M was not supported with available funds contrary to provision of Section 85 of PD 1445.m</p> <p>Of the 100 units, 34 were confirmed not being used by the recipient water districts and therefore considered unnecessary expenditures.</p>	<p>Persons responsible for the purchase without funds available may be held liable under Section 57 of PD 1445.</p> <p>Take appropriate action on how to make use of the 34 units received but not being used by WDs</p> <p>Require supplier to remedy defective units or replace with new one as provided in contract.</p>	<p>Not Implemented;</p> <p>A complaint has been filed in the Office of the Ombudsman against LWUA officials involved in the procurement.</p>
<p>15. The IT Consultant who recommended the award through direct contracting of the development of the Water District Geographical Information System and Database Management did not pass the recruitment and hiring process for consultants required under RA 9184. There was no Contract Agreement with LWUA which is not in accordance with the provisions of NCC Memorandum Circular 2004-01 dated June 7, 2004. NCC requires hiring of ICT consultants based on proven expertise, experience & capability & should not have any business interest on any of items under bid. ICT consultant may function subject to serve contract approved by agency head upon recommendation of BAC</p>	<p>Explain / clarify issues noted taking into consideration provisions of RA 9184 and NCC Memorandum Circular 2004-001 for reference and guidance in audit.</p> <p>Submit contract between LWUA and consultant, duly signed by the parties.</p> <p>The hiring of consultants should be in accordance with RA 9184 and not merely on NCC list of consultants.</p>	<p>Not implemented;</p> <p>Reiterated in Comments and Observations # 4</p>
<p>16. LWUA risks losing its Financial exposure of P58 million due to nonrecoupment of advances paid to contractors & consultants on various projects which have been</p>	<p>Reiteration of 2005 COA audit findings where it was recommended that consultants be required to liquidate their advances.</p>	<p>Implemented</p>

Audit Observations	Recommendations	Action taken/Comments
<p>dormant for 5 to 20 years-- P33.0 million to contractors and P25.9 million to consultants.</p>	<p>For advances to contractors:</p> <ul style="list-style-type: none"> - Re Titan – pursue claim vs surely bond of Titan which has subsequently decided not to continue with their project after receiving advances. Per management, claim vs Titan with Legal Department for appropriate action. Claim also submitted to adjuster in 2006. - Get in touch with adjuster to find out reason for delay of claim. - Require project engineer to immediately submit final variation order documents to close advances. <p>Determine persons responsible for loss of documents on Sampaguita and unliquidated advances.</p> <p>Determine reasons for delay in processing of JVs & inform persons concerned of issues that need to be resolved regarding documents submitted.</p>	
<p>17. Initial investment of P31.25 million in LWUA Consult, Inc. (LCI) deemed disadvantageous to LWUA as LCI's initial result of operations showed net loss of P18.49 million; also LWUA no longer earns from well drilling activities taken over by LCI.</p>	<p>Re-evaluate the necessity of investing in a subsidiary that performs same function as parent company & may continue to be disadvantageous to LWUA.</p>	<p>Implemented;</p>
<p>18. Actual expenses for Personal Services exceeded the DBM approved Corporate Operating Budget by P318.94M contrary to Section 4(1) of PD 1445.</p>	<ul style="list-style-type: none"> - Expenditures to be within limits of DBM-approved budget. - Granting of personnel benefits & 2009 economic assistance without legal 	<p>Not implemented Reiterated in Comments and Observations # 6</p>

Audit Observations	Recommendations	Action taken/Comments
	<p>basis be discontinued.</p> <ul style="list-style-type: none"> - LWUA Officials and employees responsible & accountable be required to refund the amounts they received in excess of authorized and approved rates including those without any legal basis 	
<p>19. Actual EME of P26.2 million & Miscellaneous expenses of P4.8 million for 2010 (or a total of P31.0 million) as against DBM approved budget of P.6 million for EME & P.4 for Miscellaneous expenses (or a total of P1.0 million), an excess of P25.6 million & P4.4 million, respectively (total of P30.0 million).</p> <p>Also, EME of P26.1 million not supported by receipts &/or documents evidencing disbursements as required under Sec. 3 of COA Circular 2006-991 dated 1.3.06.</p>	<p>Reiteration of prior years' audit recommendations:</p> <p>Limit reimbursement of EME within approved amount of each department / official DBM - approved COB.</p> <p>Strictly comply with COA Circular 2006- 001 dated 1.3.06 provisions re non-commutable or reimbursable basis for EME & supporting claims with receipts & documents evidencing disbursements.</p>	<p>Implemented</p>
<p>20. Grant of executive check-up & hospitalization benefits to BOT and officials & employees amounting to P4.9 million despite disapproval by DBM and COA's recommendation to discontinue if no approval from DBM.</p>	<p>Discontinue reimbursement of executive check up and hospitalization benefits to BOT and officials and employees if approval has not yet been obtained fro DBM</p>	<p>Implemented</p>
<p>21. Outstanding cash advances of P4.4 million (from Cash Special DO account of P11.1 million as of 12.31.10) remaining unliquidated although purpose for which granted had already been served, contrary to provisions of Section</p>	<p>Require accountable officers to settle immediately outstanding cash advances.</p> <p>Failure to liquidate within prescribed period to constitute a valid cause for withholding the</p>	<p>implemented;</p>

Audit Observations	Recommendations	Action taken/Comments
89 of PD 1445 & COA Circular No. 97-992 dated 2.10.97.	salary or claims from Local Water Utilities Administration accountable officers as provided under COA Circular 97-002	
22. Payment of honorarium to OGCC lawyers totaling P.391 million without any indication that 3 conditions required under EO 878 dated 3.4.83 for grant of allowance exists.	OGCC to submit required evidences to support existence of 3 concurring conditions for grant of allowances, otherwise, the payment said allowances should be discontinued.	Implemented
23. Payments of P15.6 million to concerned WDs for maturity/termination of their investment in WD deposit portfolio not in accordance with repayment condition stated in certificate of deposit requiring return of properly endorsed original copy to LWUA.	Cash Management Division should comply with the conditions in the Certificates of Deposit, which require WDs to surrender properly endorsed original copy of such Certificates upon termination/withdrawal of investment.	Implemented
24. Travel expenses of P10M were not supported by Certificates of Appearance signed by authorized officials of agency visited as required under COA Circular 96-004 dated April 19, 1996.	All liquidations of travel advances or claims for travel imbursements be supported by a Certificate of Appearance signed by authorized official of office visited by LWUA employee, or copy of accomplishment report on purpose of travel duty noted by agency head or authorized representative as required by COA Circular 96-004.	Implemented
25. Public information expense amounting to at least P2M in 2010 contrary to provisions of COA Circular 85-55A on the prevention of irregular, unnecessary, excessive or extravagant expenditures on uses of government funds and property.	Strictly adhere the to provisions of COA Circular 85-55A aimed at preventing unnecessary, excessive & extravagant expenses. Monitor and control public information expenses to minimize, if not prevent wasteful, excessive and unnecessary expenses.	Implemented

Audit Observations	Recommendations	Action taken/Comments
<p>26. Disbursements totaling P293.6M for financial assistance to WDs were supported by acknowledgement receipts only, instead of Official Receipts (ORs) required under COA Circular 2004-006. Also, failure to issue ORs as proof of receipt of funds were not in accordance with Sec. 88 of PD 1445.</p>	<p>Require WDs to issue Official Receipts (ORs) for amount released to them; henceforth, only ORs issued by WDs to be accepted as evidence of receipt of payment to comply with COA-Circular 2004-008 & Sec. 68 of PD 1445.</p> <p>Require all WDs- whether newly created or not to issue ORs for amount released to them.</p>	<p>Implemented</p>
<p>27. Unliquidated obligations account totaling P29.9 M were not supported by documents. These consisted of claims by various employees for cost of living allowance-P22.9M; hospitalization & medical benefits of P3.8M; local travel of P2.0M; executive check up of P0.68M & other miscellaneous expenses of P0.56M</p>	<p>Strictly comply with provision of Sec. 4 (6) of PD 1445 on complete documentation of payables recorded in books. Only those fully supported claims to be recognized as valid obligations and documents supporting thereto to be attached to JVs for recording in books of accounts.</p>	<p>Implemented</p>
<p>28. LWUA thru its GAD focal point able to continuously undertake activities for GAD awareness both at LWUA & WDs, although allocated fund does not represent fund requirement of at least 5% of 2010 total budget or P18.3M. Approved budget for GAD included under Outside Training & Seminars account was only P1.8M</p>	<p>GAD focal point to initiate increase in budget for GAD administered program subject to availability of cash to continue implementation</p>	<p>Not Implemented</p> <p>Reiterated in Comments and Observations # 11</p>