

LOCAL WATER UTILITIES ADMINISTRATION

EXECUTIVE SUMMARY

A. Introduction

The Local Water Utilities Administration (LWUA), a government-owned and controlled corporation was created under Presidential Decree No. 198 dated May 25, 1973 (as amended by Presidential Decrees Nos. 768 and 1479), otherwise known as the Provincial Water Utilities Act of 1973 as a specialized lending institution for the promotion, financing, and overseeing of the development of water supply systems in provincial cities and municipalities outside of Metropolitan Manila. This law authorized LWUA to service major provincial urban areas with at least 20,000 populations through the water districts. Part of the mandate is to provide a composite of financial, technical and institutional development and regulatory services to water utilities. 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. 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. Furnish technical assistance for personnel training program for local water utilities;
- c. Monitor and evaluate local water standards; and
- d. Effect systems integration, joint investment and operations, district annexation and de-annexation whenever economically warranted.

B. Financial Highlights

The Financial Position and the Results of Operation of LWUA for the year ended, December 31, 2012, with the comparative figures for CY 2011, are presented below:

Comparative Financial Position

	2012	2011	Increase (Decrease)
Assets	15,554,566,034	15,948,969,052	(394,403,018)
Liabilities	9,095,595,635	10,454,810,622	(1,359,214,987)
Net Worth	6,458,970,399	5,494,158,430	964,811,969

Comparative Results of Operations

	2012	2011	Increase (Decrease)
Income	1,106,927,089	1,235,665,464	(128,738,375)
Expenses	807,092,113	2,467,602,358	(1,660,510,245)
Net Income (Loss) from Operations	299,834,976	(1,231,936,894)	1,531,771,870
Other Income/Charges	645,005,353	(129,519,967)	774,525,320
Net Income(Loss) Before Tax	944,840,329	(1,361,456,861)	2,306,297,190
Income Tax	77,103,207	(409,321,837)	486,425,044
Net Profit/Loss	867,737,122	(952,135,024)	1,819,872,146

C. Operational Highlights

LWUA was formed for the purpose of installing, improving, maintaining and operating water supply and service major provincial urban areas with at least 20,000 population through the water districts. Significant accomplishments based on their targets for CY 2012 are listed below:

MFOs AND PERFORMANCE 1/ INDICATORS	CY 2012	
	Target	Actual 1/
<i>Major Final Outputs (MFOs)/Operations</i>		
MFO 1: Technical Assistance		
1. No. of construction projects undertaken (Completed and Ongoing)	212	186
2. No. of Program of Work Preparation (Completed and Ongoing)	140	116
MFO 2: Institutional Development Assistant		
1. Increase in number of WDs with 24/7 water service 2/	20	34
2. Average Non-Revenue Water (% NRW)	28	28.86
MFO 3: Lending/Financial Assistance		
1. Project Disbursements	P1.664 B	P0.573 B

1/ Actual accomplishments for 2012 were based on data available as of March 2013

2/ Actual no. of WDs with 24/7 as of 2011 was 333.

D. Scope of Audit

The audit covered the examination on a test basis of the accounts and financial transactions and operations of LWUA for the period January 1 to December 31, 2012 in accordance with Philippine Standards on Auditing. The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of the Corporation to prescribed laws, rules and regulations.

E. Independent Auditor's Report

We rendered an adverse opinion on the fairness of the presentation of the 2012 financial statements for reasons stated in the Independent Auditor's Report under Part I of the Report.

F. Summary of Audit Observations and Recommendations

Below is a summary of audit observations and recommendations, and audit actions, with details discussed in Part II – A of this Report.

- 1. Fund releases totaling P2.362 billion to 231 water districts from CYs 2009 to 2011 for water supply projects initially treated under the Non-LWUA-Initiated Funds (NLIF) – President's Social Fund (PSF) Program on a 50%-50% loan grant mix were not in order as the funds were sourced from corporate funds, with no PSF funds released to LWUA. The later Board authorized conversion of said fund releases into LWUA Internally Cash Generated (ICG) soft loans recorded as *Receivables from Water Districts*, was likewise without any valid basis for the amount of P2.222 billion or 94% of total fund releases, pertaining to 214 water districts, as there were no board resolutions and loan agreements evidencing acceptance of the conversion by the latter, and for the remaining amount of P140.03 million or 6% released to 17 water districts, the acceptance was documented only with board resolutions of the latter but without loan agreements between them and LWUA.**

Recommendation:

Immediately document the acceptance by the water districts of the conversion of NLIF-PSF grants into LWUA ICG soft loans with board resolutions of water districts and corresponding revised loan agreements for the P2.222 billion fund releases to 217 water districts, and revised loan agreement to 17 water districts with fund releases totaling P140.03 million; and submit the same for audit.

Audit Action:

We will accordingly issue Notice of Disallowance for fund releases under the NLIF-PSF Program without the acceptance of the water districts as regards the conversion into LWUA ICG soft loans.

2. **Deferred Credits amounting to P941.64 million were offset against the Long-Term Receivables Account, contrary to PAS 32 Financial Instruments – Presentation and disclosures.**

Recommendation

Direct the Accounting Department to strictly adhere to specific accounting standards and/or other pronouncements relating to the Generally Accepted Accounting Principles (GAAP) in order to reflect the fair presentation and proper classification of the accounts.

3. **The year-end balance of account Deferred Income from Feasibility Studies (FS) and Construction Supervision Cost (CSC) at P157.69 million remained inactive since 2009 and was not properly stated as no amortization of service income had been effected.**

Recommendation:

Direct the Accounting Department to conduct a thorough verification of this account and appropriate journal entries has to be drawn to reflect proper classification and presentation of the account balance.

4. **Long-Term Investments amounting to P511.66 million were not recognized at their recoverable amount as of December 31, 2012 contrary to PAS No. 36.**

Recommendations:

- a. *Assess for impairment in value its investments at each balance sheet date and determine how much can be recovered from the investments in Express Savings Bank, Inc. and LWUA Consult, Inc;*
- b. *Recognize for impairment loss and effect the necessary adjustments; and*
- c. *Take an inventory of all the remaining assets left of LCI to be able to recover some of the investments.*

5. **The accuracy and validity of the year-end balances of Loans Payable – Bureau of Treasury and Loans Payable - LBP amounting to P5.371 billion and P5.430 billion, respectively, were not established due to unreconciled variances between the confirmed balances of Bureau of Treasury and LWUA books with the latter higher by P3.160 billion, and between the confirmed balances of the LBP and LWU books with the latter lower by P14.580 million, as of December 31, 2012.**

Recommendations:

Require the Accounting Department to reconcile the noted variances/difference between the recorded balances of Loans

Payable-Domestic and Foreign against the amount confirmed by the Bureau of Treasury and Land Bank of the Philippines, and to effect the necessary adjusting entries, if any, to reflect the correct balances of the accounts.

6. **The accuracy and reliability of the year-end balance of Loan Receivables – Water Districts could not be ascertained due to the unreconciled discrepancies/variances totaling P109.58 million between the balance per books and balance per confirmation.**

Recommendations:

- a. *Exert efforts to reconcile and identify the causes of the discrepancies/variances noted; and*
 - b. *Effect the necessary adjusting journal entries in the books, if any, so that fair and reliable information is presented in the financial statements.*
7. **Dividends due to National Government amounting to P1.13 billion under Dividend Payable remained unremitted as of year-end contrary to Section 3 of Republic Act No. 7656. Of this amount, only P300 million was remitted in January 2013 and March 2013.**

Recommendation:

Comply with the provision of Section 3 of R.A. No. 7656 for the full remittance of dividends to the National Government.

8. **Advances to Contractors, Advances to Consultants and Advances to Water Districts totaling P48.69 million for projects undertaken from 1984 to 2006 in the amounts of P38.89 million, P7.45 million and P2.35 million, respectively, remained unrecovered after the contracts had been rescinded or terminated.**

Recommendations:

- a. *Strictly implement the Procurement Law – RA 9184 and the provision of par. 10 (2) of the Contract entered into by and between the LWUA and the contractor;*
- b. *Pursue appropriate legal action against the surety bond posted by the contractors;*
- c. *Exert all efforts to collect from the contractors with long overdue cash advances;*
- d. *Develop a system of monitoring rescinded/terminated contracts with the end view of determining the existence of unrecovered advance payment to deter the occurrence of long overdue balances from contractors;*

- e. *Submit for audit complete documents on the reclassification of Advances to Water Districts;*
- f. *Determine the officers and employees who were negligent in the discharge of their duties and responsibilities, particularly, the persons responsible for the loss of the documents on one contractor; and*
- g. *Submit to the Audit Team the updated reports of action taken by the Legal Affairs Department on the status of the projects/accounts and cases filed against the surety bond posted by the contractors.*

9. Unbilled Loans and Accounts Receivable – Water Districts carried contractors’ accounts with negative balances amounting to P42.66 million, contrary to PGAS 4.

Recommendations:

- a. *Comply with the provision of Par. 4.6 of PGAS as regards the proper classification of negative receivable balances;*
- b. *Analyze Unbilled Loans and Accounts Receivable – Water District accounts to determine the correct balances of the contractors’ accounts; and*
- c. *Effect the necessary adjusting entries required by par. 4.6 of PGAS.*

10. Five Water Supply and Sanitation Projects (WSSP) with fund releases amounting to P38.19 million in CYs 2009 and 2011 had not been implemented, in violation of Article III (1) of the Memorandum of Understanding (MOU) signed by and between the Water Districts and LWUA.

Recommendations:

- a. *Institute legal remedies to recover the funds released to the Water Districts which did not implement the water supply and sanitation projects; and*
- b. *Adopt a regular inspection or monitoring program of the Project Status of the Water Supply and Sanitation Project to determine the progress of work of the concerned Water District.*

11. LWUA’s contribution amounting to P32.45 million to the Officers and Employees’ Provident Fund for CY 2012 representing government share was paid to the Provident Fund despite the provisions of Item 5.3.2 of Budget Circular No. 2008-3 that government monetary contribution cannot be given pending issuance of DBM guidelines.

Recommendations:

Stop the Administration's contribution to the Fund and revert to the LWUA the share contributed for CYs 2010 - 2012 and secure a post-facto approval from the Office of the President or the DBM.

12. **The amount of P376.23 million or 94% of the P400.00 million subsidy/grant received from the National Government in CY2009 for the projects of the Water Districts (WDs) was not utilized/released to the qualified WD, hence defeating the purpose of the grant.**

Recommendations:

- a. *Comply with the provision of the Special Provision No. 8 of the GAA CY2009; and*
- b. *Make the necessary verification and evaluation of the grant to determine the reason of the unreleased balance.*

13. **Meal Allowance and Hospitalization and Other Medical Benefits exceeded the maximum limit set per DBM-approved Corporate Operating Budget for CY 2012 and LOI No. 97 by P21.26 million and P9.26 million, respectively.**

Recommendations:

- a. *Stop granting Meal Allowance and Hospitalization and Other Medical Benefits in excess of the maximum limit; and*
- b. *Secure post facto approval from the Office of the President for the benefits received in CY 2012 and prior years.*

Audit Action:

We will issue the necessary Notice of Disallowance for CY 2012 and prior years, should no approval be obtained from the OP.

14. **Some LWUA officials received Extraordinary and Miscellaneous Expenses (EME) more than the amount allowed per General Appropriations Act for CY 2011 and 2012 and DBM-approved COB by P0.469 million and P0.248 million for CYs 2011 and 2012, respectively. Moreover, some LWUA officials whose positions were not among the authorized officials per GAA for CY 2011 and 2012 received EME totaling P1.329 million.**

Recommendations:

- a. *Require the refund of the excess EME and ME immediately, otherwise, audit disallowances shall be issued;*
- b. *Secure from the DBM, LWUA officials of equivalent rank who are entitled to EME and ME; and*

- c. *Henceforth, comply with the conditions set forth in the DBM approved COB.*

Audit Action:

We will accordingly issue the Notice of Disallowance if no immediate refund is made of the excess EME and ME.

15. **Cash Advances amounting to P6.69 million under Account Advances to Officers and Employees remained unliquidated as of December 31, 2012, contrary to the provisions of COA Circular No.97-002.**

Recommendations:

Strictly comply with COA Circular No. 97-002, and closely monitor the unliquidated cash advances and initiate administrative action against the officials and employees with long outstanding unliquidated cash advances.

G. Status of Implementation of Prior Year's Audit Recommendations

All the audit observations and recommendations contained in the Annual Audit Report (AAR) for CY 2011 are all reiterated Part II.A of the Report as the AAR was released only in June 2013, only weeks ahead of the release of this Report.

For the audit recommendations contained in the AAR for CY 2010 and previous years, the status thereof is presented in Part II.B of this Report. Out of the 28 audit recommendations embodied therein, 20 were implemented and eight were not implemented.



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

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees

Local Water Utilities Administration
Balara, Quezon City

Report on the Financial Statements

We have audited the accompanying financial statements of Local Water Utilities Administration (LWUA), which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive 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 state accounting principles generally accepted in the Philippines, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As discussed in Part II A – Comments and Observations, we considered the following in the formulation of our audit opinion:

1. Of the financial assistance totaling P2.362 billion to 231 water districts from CYs 2009 to 2011 for water supply projects initially treated under the Non-LWUA Initiated Funds (NLIF) – President's Social Fund (PSF) Program on a 50%-50% loan grant mix, which were found without any valid basis as funds were sourced from corporate funds, with no PSF funds released to LWUA at the time of the execution of Memorandums of Understanding, the later conversion of said fund releases into LWUA Internally Cash Generated (ICG) soft loans recorded as *Receivables from Water Districts*, was likewise without any valid basis for the amount of P2.222 billion or 94% of the total amount pertaining to 214 water districts, as there were no board resolutions and loan agreements evidencing acceptance of the conversion by the latter, and for the remaining amount of P140.03 million or 6% released to 17 water districts, the acceptance was documented only with board resolutions of the latter but without loan agreements between them and LWUA.
2. Deferred Credits amounting to P941.64 million were offset against the Long-Term Receivables Account, contrary to PAS 32 Financial Instruments – Presentation and disclosures.
3. The year-end balance of account *Deferred Income from Feasibility Studies (FS) and Construction Supervision Cost (CSC)* at P157.69 million remained inactive since 2009 and was not properly stated as no amortization of service income had been effected.
4. Long-Term Investments amounting to P511.66 million were not recognized at their recoverable amount as of December 31, 2012 contrary to PAS No. 36.
5. The accuracy and validity of the year-end balances of Loans Payable – Bureau of Treasury and Loans Payable - LBP amounting to P5.371 billion and P5.430 billion, respectively, were not established due to unreconciled variances between the confirmed balances of Bureau of Treasury and LWUA books with the latter higher by P3.160 billion, and between the confirmed balances of the LBP and LWU books with the latter lower by P14.580 million, as of December 31, 2012.
6. The accuracy and reliability of the year-end balance of Loan Receivables – Water Districts were not ascertained due to the unreconciled discrepancies/variances totaling P109.58 million between the balance per books and balance per confirmation.
7. Meal Allowance and Hospitalization and Other Medical Benefits exceeded the maximum limit set per DBM-approved Corporate Operating Budget for CY 2012 and LOI No. 97 by P21.26 million and P9.26 million, respectively.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, in all material respects, the financial position of the LWUA as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with state accounting principles generally accepted in the Philippines.

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 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. Because of the significance of the matters described in the Basis for Adverse Opinion paragraphs, it is inappropriate to and we do not express an opinion on the information referred to above.

COMMISSION ON AUDIT

MA. NANCY J. UY
Officer in Charge
Supervising Auditor

May 21, 2013

LOCAL WATER UTILITIES ADMINISTRATION**STATEMENT OF FINANCIAL POSITION****December 31, 2012**

(With comparative figures as of December 31, 2011)

(In Philippine Peso)

	Notes	2012	2011
ASSETS			
Current Assets			
Cash and Cash Equivalents	5	1,862,286,979	1,598,201,597
Receivables	6	843,320,795	1,192,738,136
Supplies Inventory	7	3,038,598	3,203,024
Other Current Assets	8	60,404,162	96,281,221
Total Current Assets		2,769,050,534	2,890,423,978
Non-Current Assets			
Long-Term Receivables	9	8,522,447,615	8,778,437,675
Long-Term Investments	10	553,569,376	581,878,991
Property and Equipment	11	181,596,155	207,910,525
Other Non-Current Assets	12	3,527,902,354	3,490,317,883
Total Non-Current Assets		12,785,515,500	13,058,545,074
TOTAL ASSETS		15,554,566,034	15,948,969,052
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts Payable	13	55,892,160	483,967,541
Payables to Government Agencies	14	10,470,015	11,070,872
Other Current Liabilities	15	3,548,671,456	3,587,346,448
Total Current Liabilities		3,615,033,631	4,082,384,861
Non-Current Liabilities			
Loans Payable - Gov't. of the Phils.	16	1,292,907,182	1,625,165,563
Loans Payable - Foreign	17	3,665,560,443	4,334,282,968
Loans Payable - Local	18	515,440,000	408,320,000
Deferred Credits	19	6,654,379	4,657,230
Total Non-Current Liabilities		5,480,562,004	6,372,425,761
		9,095,595,635	10,454,810,622
Equity		6,458,970,399	5,494,158,430
TOTAL LIABILITIES AND EQUITY		15,554,566,034	15,948,969,052

See accompanying Notes to Financial Statements.

LOCAL WATER UTILITIES ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(In Philippine Peso)

1. CORPORATE INFORMATION

The Local Water Utilities Administration (LWUA), a government-owned and controlled corporation was created under Presidential Decree No. 198 dated May 25, 1973 (as amended by Presidential Decrees Nos. 768 and 1479), otherwise known as the Provincial Water Utilities Act of 1973 as a specialized lending institution for the promotion, financing, and overseeing of the development of water supply systems in provincial cities and municipalities outside of Metropolitan Manila. This law authorized LWUA to service major provincial urban areas with at least 20,000 population through the water districts. Part of the mandate is to provide a composite of financial, technical and institutional development and regulatory services to water utilities. 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:

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

LWUA being a GOCC is 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 Corporation holds its office in its own building at the MWSS-LWUA compound located at Balara, Quezon City.

Under PD 198, all the business and affairs of the Administration shall be carried on and its power shall be exercised by and through the Board of Trustees. However, in the absence of the duly appointed members of the LWUA Board of Trustees, the accompanying Financial Statements of LWUA for the year ended December 31, 2012 was authorized for issue on the 14th day of February, 2013 by its Acting Administrator who has the primary responsibility for all the information and representations contained therein.

2. 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.

Basis of Preparation

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

Functional and Presentation Currencies

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

Statement of Compliance

LWUA is in the process of reviewing and updating its accounting policies and practices for its financial statements to comply with Philippine Financial Reporting Standards (PFRS). The standards that LWUA has yet to comply with are as follows:

- 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.
- 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.
- 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.

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 12).

Financial Instruments

- Financial Assets

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 non-current assets.

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 3, 6 and 9).

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 includes 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.

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 5, 6, 9 and 12).

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 10).

- 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 non-current 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 13, 14, 15, 16, 17 and 18).

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 in and Advances to Subsidiaries 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 Costs and Other Charges 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.

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 Note 22)

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
- with respect to 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.

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.

3. 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 judgment on the determination of functional currency which has the most significant effect on the amounts recognized in the financial statements. 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*

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 non-operational WDs, 40%.

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: (See Note 4)

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 for the years ended December 31, 2011 and nil for 2012, respectively. The carrying values of loans and receivables as at December 31, 2012 and 2011 which showed a downward trend are as follows (see Notes 6, 9 and 12):

	2012	2011
	<i>(in millions)</i>	
Receivables	843	1,193
Long-Term Receivables	8,522	8,778
Receivables from WDs - PSF	2,362	2,362

- *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 P359 million and P339 million for the years ended December 31, 2012 and 2011, respectively. Carrying value of property, plant and equipment, net of accumulated depreciation, amounted to P182 million and P208 million as at December 31, 2012 and 2011, respectively

(see Note 11).

- *Impairment of Non-Financial 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 non-financial assets as of December 31, 2012 and 2011 subject to impairment review are as follows (see Notes 10, 11 and 12):

	2012	2011
	<i>(in millions)</i>	
Investments in and Advances to Subsidiaries	512	512
Property, Plant and Equipment	181	208
Deferred Engineering Study Costs	83	70
Other Deferred Charges	9	15
Other Assets	137	137

- *Realizability of Deferred Tax Assets*

Total recognized deferred tax assets amounted to P965 million as at December 31, 2012 and 2011. The account "Deferred Tax Asset" is presented and classified under "Other Non-Current Assets", net of the Deferred Tax Liability, as follows: (see Notes 12)

	2012	2011
Deferred Tax Assets	965,104,347	965,104,347
Deferred Tax Liabilities	261,681,142	261,681,142
Net Deferred Tax	703,423,205	703,423,205

4. INSTITUTIONAL REFORMS

In June 2011, a new Board of Trustees was appointed to oversee the operations of LWUA and ensure that the books reflect its true financial condition and performance. Issues identified by the Board 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; and b) those which require further review and evaluation.

A. The issues that required possible adjustments are summarized below:

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

- Reversal of depreciation on Geographical Information System (see Note 12);
- Correction of error in recording to miscellaneous receivables the potable water quality monitoring equipment purchased as part of the Presidential Social Fund issue (see Note 12);
- Loss provision on loans receivable, based on new loss provisioning policy (see Note 6 & 9); and
- Other deferred credits for interest earned but not yet collected offset against receivable accounts for financial statements presentation purposes only (see Note 19).

1) Those transactions which are still for further review and evaluation:

Particulars	Remarks
1. Financial grants to water districts (WDs) under the purported PSF (which includes the questionable purchase of P110 million worth of potable water quality monitoring equipment) with questions raised by COA and with opinion from the Office of the General Corporate Counsel (OGCC) (Note 12) – P2.362 billion.	LWUA adopted a project prioritization policy which identifies the projects that are included in its disbursement schedules. This policy ensures that only relevant projects certified to have available funds are implemented by LWUA.
2. Investments/ deposits in Express Savings Bank, Inc. (ESBI) with Notice of Disallowance (ND) issued by COA in August 2011 (Note 10 & 12) - P780 million.	ESBI is now under receivership of PDIC. The P500,000 insured deposit was already received by LWUA.
3. Investment in LWUA Consult, Inc. (LCI), a 100% owned subsidiary with same objective as LWUA, with questions raised by COA (Note 10) - P31.6 million.	LWUA management directed LCI to cease operations effective 01 August 2011 and recalled employees on detail.
4. Other receivables billed to WDs but were being disputed which pertained to construction costs, construction supervision capitalized interests and penalties.	Disputed account pertaining to contested capitalized interest are presently under discussions between LWUA and the WDs and in process of reconciliation (Notes 7 and 10).
5. Long outstanding receivables from contractors and consultants (Note 8) - P49.3 million.	Terminated contracts/abandoned projects. No longer existent.
6. 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 9) - P3.52 million.	MPL of LWUA employees and Board Members are secured by collaterals in the form of real estate.
7. Receivable from resigned employees for benefits paid with ND (Note 6) - P8.1 million.	LWUA management ordered the execution of a Deed of Undertaking to protect LWUA's interest in the event a refund is ordered by the Supreme Court.

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|-----|--|---|
| 8. | 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 5, 12, and 15). | Part of the cash intended for the beneficiaries of the Trust Fund Liabilities are deposited with ESBI which is presently under PDIC receivership. |
| 9. | Down payment on Geographical Information System acquired under contract for P223.8 million, with questions raised by COA. | The matter was already referred to LWUA's lawyer/consultant to provide legal assistance. |
| 10. | Information Systems and Strategic Plan carried under Property and equipment still uncompleted to date after 10 years. (Note 11) | The matter was already referred to LWUA's lawyer/consultant to provide legal assistance. |
| 11. | Renovation of LWUA dorm with questions raised by COA (Note 11) – P39.47 million | The matter was already referred to LWUA's lawyer/consultant to provide legal assistance. |

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 31):

- 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.

5. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2012	2011
Cash on Hand	38,339,657	673,845,619
Cash in Banks	1,819,290,572	916,553,715
Short-Term Investments	4,656,750	7,802,263
	1,862,286,979	1,598,201,597

Cash in Banks which earn interest at the prevailing bank deposit rates included the amount of P78.7 million in 2012 and P357.1 million in 2011, representing the proceeds from refinancing of certain receivables received in December 2012 and in December 2011, respectively. (See Note 9)

Short-Term Investments 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 3.3% to 3.9% p.a. in 2012 and 3% to 3.5% p.a. in 2011.

Interest income from cash and cash equivalents amounted to P9.324 million in 2012 and P5.469 million in 2011, respectively.

6. RECEIVABLES

This account consists of:

	2012	2011
Trade Receivables		
Loans Receivables from GOCCs	1,572,268,162	1,989,210,075
Interest Receivables	1,075,846,865	930,912,887
Receivables from Well Drilling Projects	312,657	582,151
Receivables from WDs on Open Account	429,707,040	405,483,444
Receivables from WD - Engineering Studies	2,868,400	3,038,400
	3,081,003,124	3,329,226,956
Allowance for Bad Debts	(1,940,294,197)	(1,940,294,197)
	1,140,708,927	1,388,932,759
Undistributed Water District's Debt		
Service Collections (see Note 14)	(130,709,005)	(52,898,346)
Interest on Non-Performing Loans (see Note 19)	(239,305,128)	(223,792,048)
	770,694,794	1,112,242,366
Non-Trade Receivables		
Due from Officers and Employees	6,971,804	5,571,539
Receivables from Government Agencies	44,503,751	52,923,236
Receivables-Disallowances/ Charges	12,532,462	13,110,998
Miscellaneous Receivables	13,659,456	13,931,469
	77,667,473	85,537,242
Allowance for Bad Debts	(5,041,472)	(5,041,472)

	72,626,001	80,495,770
	843,320,795	1,192,738,136

Loans Receivables from GOCCs represent the current portion of outstanding long-term loans receivables from WDs of P11,877.81 million in 2012 and P12,196.69 million in 2011, and from the RWSA of P61.32 million in 2012 and P61.44 million in 2011. (see Notes 3 and 9). The decrease of 21% was due to the recognition of 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 4 and 9). Compared to 2011, the 16% increase was a result of interest billings in 2012.

Receivables from Well Drilling Projects represent the amounts due from the WDs for its well drilling projects undertaken by LWUA. Compared to 2011, the 46% decrease was due to collection from well drilling projects during the year.

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 9) 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. Compared to 2011, the increase was attributable to open account billings that was recognized in 2012.

Receivables from Engineering Studies represent the amounts due from the WDs for engineering studies undertaken by LWUA.

Due from Officers and Employees represents receivables from medical loans granted to LWUA officials and employees as well as amounts of cash advances for travelling expenses. The Board has required strict compliance with policy on advances and their liquidation.

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 4). 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.

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 2012.

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 relents loans from the National Government.

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 P2,362,358,310 representing releases to projects purportedly funded by PSF was classified under Non-Current Assets – Miscellaneous Receivables – WDs (PSF).

7. SUPPLIES INVENTORY

This account consists of:

	2012	2011
Office Supplies Inventory	380,156	847,913
Medical, Dental and Laboratory Supplies	324,196	332,577
Other Supplies Inventory	2,334,246	2,022,534
	3,038,598	3,203,024

Office Supplies Inventory account consists of supplies purchased/held for consumption in the normal course of LWUA operations.

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.

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.

8. OTHER CURRENT ASSETS

This account consists of:

	2012	2011
Advances to Contractors	39,524,821	51,267,669
Advances to Consultants	16,269,292	16,269,291
Advances to Water Districts	2,348,182	26,567,483
Prepaid Expenses	531,347	446,268
Guaranty Deposits	1,730,520	1,730,510
Other Current Assets	60,404,162	96,281,221

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

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

Advances to WDs 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

Prepaid Expenses 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.

9. LONG-TERM RECEIVABLES

This account consists of:

	2012	2011
Loans Receivable from Water Districts (WD)	11,877,811,009	12,196,693,326
Restructured Receivables - WD	677,730,302	761,581,224
Employees Multipurpose Loan Receivables	203,492,023	211,696,427
Unbilled Loans and Accounts Receivables-WDs	90,338,918	90,338,918
Loans Receivable - RWSA	61,317,546	61,437,481
	12,910,689,798	13,321,747,376
Current Portion (see Note 6)	1,572,268,162	1,989,210,074
	11,338,421,636	11,332,537,302
Allowance for Bad Debts	1,874,328,561	1,874,328,561
	9,464,093,075	9,458,208,741
Deferred Income from Housing Loan (Note 19)	(18,145,713)	(18,752,416)
Uncollected Capitalized Interest (Note 19)	(541,725,880)	(279,244,783)
Deferred Interests from Restructured Loans (see Note 19)	(381,773,867)	(381,773,867)
	(941,645,460)	(679,771,065)
	8,522,447,615	8,778,437,675

Loans Receivable from WDs consists 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.

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 P12,747,707,843 in 2012 and P13,337,092,344 in 2011, broken down as follows:

2012

Loans Receivable - Principal		
Current portion (see Note 6)	1,408,456,107	
Long-term	9,796,920,017	
Restructured	295,956,436	11,501,332,560
Accrued Interest Receivable (see Note 6)		813,487,186
Open Account Bills		429,707,040

Engineering Studies	2,868,400
Well Drilling Projects	312,657
	<u>12,747,707,843</u>

2011		
Loans Receivable - Principal		
Current portion (see Note 6)	1,903,088,743	
Long-term	9,961,461,453	
Restructured	<u>379,807,358</u>	12,244,357,554
Accrued Interest Receivable (see Note 6)		683,630,795
Open Account Bills		405,483,444
Engineering Studies		3,038,400
Well Drilling Projects		582,151
		<u>13,337,092,344</u>

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 3).

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.

- 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

LWUA and the WDs are presently reconciling these disputed receivables.

- 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;
 - 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;
 - 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.

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.

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. Considering that the loan program has not been included in the DBM approved budget for LWUA the new Board discontinued the release of all pending applications for the loan.

10. LONG-TERM INVESTMENTS

This account includes:

	2012	2011
Advances to Express Savings Bank, Inc.	400,000,000	400,000,000
Investments in Bonds	41,910,748	70,220,363
Investments in Subsidiaries	80,003,070	80,003,070
Advances to LWUA Consult, Inc.	31,655,558	31,655,558
	553,569,376	581,878,991

Advances to and Express Savings Bank, Inc. (ESBI)

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, 59 and 71 of PD 198 LWUA has been favored to invest /create a subsidiary and such act is within its Charter to do so.

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.

Investments in Bonds

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.

Advances to LWUA Consult, Inc.

The account consists of the following:

- 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.
- b. The P405,559 represents the liquidation of cash advance for the registration/ incorporation of LCI with the Securities and Exchange Commission (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.

11. PROPERTY AND EQUIPMENT

The roll forward analysis of this account follows:

	Land Improvement	Building & Improvement	Furniture & Office Equipment	Engineering & Laboratory Equipment	Other Equipment	Total
Cost						
At January 1, 2012	1,664,620	198,142,429	144,971,503	128,552,674	73,815,093	547,146,319
Additions			716,876		132,180	849,056
Transfers				(2,445)	(2,720)	(5,165)
Disposals			(517,864)	(754,314)	(6,043,962)	(7,316,140)
At December 31, 2012	1,664,620	198,142,429	145,170,515	127,795,915	67,900,591	540,674,070
Accum. Depreciation						
At January 1, 2011	-	71,321,273	106,763,211	102,652,577	58,498,733	339,235,794
Depreciation		5,004,879	10,666,140	3,911,185	6,651,215	26,233,419
Disposals			(466,077)	(678,883)	(5,246,338)	(6,391,298)
At December 31, 2012	-	76,326,152	116,963,274	105,884,879	59,903,610	359,077,915
Net Carrying Amount ,						
December 31, 2012	1,664,620	121,816,277	28,207,241	21,911,036	7,996,981	181,596,155
Cost						
At January 1, 2012	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 31, 2011	1,664,620	198,142,429	144,971,503	128,552,674	73,815,093	547,146,319
Accum. Depreciation						
At January 1, 2012		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 31, 2011	-	71,321,273	106,763,211	102,652,577	58,498,733	339,235,794
Net Carrying Amount,						
December 31, 2011	1,664,620	126,821,156	38,208,292	25,900,097	15,316,360	207,910,525

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.

- b. Expenditures for 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 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.

12. OTHER NON-CURRENT ASSETS

This account consists of:

	2012	2011
Deferred Tax Assets, Net	703,423,205	703,423,205
Deferred Engineering Study Cost	82,544,810	70,418,397
Restricted Funds	391,436,704	360,608,682
Other Deferred Charges	9,202,029	14,571,993
Receivable from Water Districts-PSF	2,362,358,310	2,362,358,310
Other Assets	136,632,000	136,632,000
	3,685,597,058	3,648,012,587
Deferred Income from Feasibility Study and Design/ Construction Supervision (Note 19)	(157,694,704)	(157,694,704)
	3,527,902,354	3,490,317,883

Deferred Engineering Study Cost refers to the expenses incurred in connection with the preparation of project feasibility studies and detailed engineering designs of unbilled on-going projects. The costs of billed projects are eventually transferred to the receivable account. (see Note 3)

Restricted Funds account pertains to: (a) the P300 million cash deposits with the ESBI now carried in the LWUA books at P303.4million, (b) P84.4million cash deposits with the Land Bank of the Philippines (LBP) and the Philippine National Bank (PNB), and c) P3.6 million Water District Deposit Portfolio (WDDP) cash deposits which were earmarked for specific water supply projects and not available for in-house disbursement operation (see Note 5).

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 using LWUA's ICG (Internal Cash Generation). The financial assistance which were originally released 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.

LWUA issued Board Resolution No. 60 for the conversion of the disbursements made to the Water Districts into 100% soft loans. A number of WDs have already signified their intention to convert the fund released into soft loan and a continuing discussion with the WDs are being undertaken to convince them to enter into loan agreement with LWUA.

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 – NGit 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.

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.

Other Assets in 2012 substantially represents the down payment of P136.632 million made in April 2011 on the Geographical Information System (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).

LWUA has not made formal acceptance of the deliveries. Due to the issues raised by COA relative to the provisions of RA 9184 regarding award through direct contracting, 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.

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.

13. ACCOUNTS PAYABLE

This account consists of:

	2012	2011
Notes and Acceptances Payable	-	379,200,000
Interest Payable	34,954,003	34,267,359
Payables - Unliquidated Obligations	20,849,476	70,446,093
Payable to Officers and Employees	88,681	54,089
	55,892,160	483,967,541

Notes Acceptances Payable pertains to the outstanding balance of short-term loans with the Philippine Veterans Bank (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 6).

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.

Payable-Unliquidated Obligations refers to unpaid obligations for which goods and services have already been delivered and/or rendered and ready for payment.

Payable to Officers and Employees pertains to unclaimed employees' remunerations as of balance sheet date.

14. PAYABLE TO GOVERNMENT AGENCIES

This account consists of amounts:

	2012	2011
Due to Government Owned and Controlled Corporations (GOCCs)	138,558,793	60,794,942
Due to Bureau of Internal Revenue (BIR)	2,620,227	3,174,276
	141,179,020	63,969,218
WDs Loan Remittances Offset Against Receivable (see Note 6)	(130,709,005)	(52,898,346)
Payable to Government Agencies, Net	10,470,015	11,070,872

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 P130.7 million was offset against receivables from WDs. (See Note 6)

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 2011, the decrease was due to payment of taxes during the year.

15. OTHER CURRENT LIABILITIES

This account consists of:

	2012	2011
Loans Payable, Current - Government of the Philippines (see Note 16)	172,804,532	207,619,133
Loans Payable, Current - Foreign (see Note 17)	240,194,759	288,493,078
Loans Payable, Current - Local (see Note 18)	234,160,000	158,320,000
Guaranty Deposits Payable	71,716,293	71,671,293
Dividends Payable	1,130,820,000	1,130,820,000
Other Payables	1,698,975,872	1,730,422,944
	3,548,671,456	3,587,346,448

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*”.

LWUA deferred the payment of dividends from 2008 to 2010 in view of LWUA’s pending request with DOF for exemption from dividend remittances because of its dire need for huge capital to finance its projects.

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) amounts 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:

	2012	2011
Liability for Special Funds	1,693,645,962	1,712,016,938
Depository Liability - WDRD	73,471,139	95,656,105
Advances by the Bureau of Treasury	(76,077,578)	(88,489,114)
Advances from Plane Fare	57,418	-
Trust Liability - Profund	211,089	2,423,346
Payable - Miscellaneous	7,667,842	8,815,669
	1,698,975,872	1,730,422,944

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

Trust funds 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.

16. LOANS PAYABLE – GOVERNMENT OF THE PHILIPPINES

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.

This account consists of:

	2012	2011
United States Agency for International Development (USAID) 033 - US\$15M		
At 2% per annum from 1975 to 1985, 3%, thereafter, payable in 30 annual installments of \$286,330.88 starting July 17, 1985 and increasing thereafter, up to July 17, 2015	81,152,068	113,822,208
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	128,794,804	165,593,559
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	365,197,489	426,122,982
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	15,182,629	29,778,724
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	10,369,464	11,058,210
International Development Association (IDA) 920-PHI - US\$14M		
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	24,096,573	31,475,978
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	76,979,966	85,764,922
OECF 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	75,444,962	95,254,310
OECF 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	643,136,971	821,482,171
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	45,356,788	52,431,632
	1,465,711,714	1,832,784,696
Current Portion (see Note 15)	(172,804,532)	(207,619,133)
	1,292,907,182	1,625,165,563

The movements in debt issue costs follow:

	2012	2011
	<i>(In Millions)</i>	
Balance at the beginning of the year	1,833	1,914
Foreign exchange rate adjustment	(242)	127
Addition		-
Amortization	(125)	(208)
Balance at end of year	1,466	1,833

The scheduled maturities of the long-term debts at nominal values as of December 31, 2012 are as follows:

	Amount	<i>(In Millions)</i>
2013		153
2014		157
2015		146
2016		143
2017 and onwards		867
		1,466

17. 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. This account consists of:

	2012	2011
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	430,810,870	513,287,617
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	695,082,553	790,308,713
OECP 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	582,021,651	738,219,423
OECP 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	1,429,724,195	1,797,468,577
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	716,721,408	774,965,296
KFW PTWSP III - €10.200M		
At 0.75% p.a. payable in 60 semi-annual installments starting December 30, 2019 to June 30, 2049	51,394,525	8,526,420
	3,905,755,202	4,622,776,046
Current Portion (see Note 15)	(240,194,759)	(288,493,078)
	3,665,560,443	4,334,282,968

The movements in debt issue costs follow:

	2012	2011
	<i>(in Millions)</i>	
Balance at the beginning of the year	4,623	4,789
Foreign exchange rate adjustment	(383)	115
Addition		9
Amortization	(334)	(290)
Balance at end of year	3,906	4,623

The scheduled maturities of the long-term debts at nominal values as of December 31, 2012 are as follows:

	Amount
	<i>(in Millions)</i>
	334
2014	287
2015	296
2016	306
2017 and onwards	2,683
	3,906

18. LOANS PAYABLE – LOCAL

This account consists of term loans from the following:

	2012	2011
Philippine Veterans Bank (PVB)	691,280,000	450,000,000
Land Bank of the Philippines (LBP)	58,320,000	116,640,000
	749,600,000	566,640,000
Current Portion (Note 15)	(234,160,000)	(158,320,000)
Non-Current Portion	515,440,000	408,320,000

The loan from PVB is a five year term loan of P500 million 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 10)

The LBP term loans consist of:

	Outstanding Balance	
	2012	2011
2 nd Tranche		-
3 rd Tranche	58,320,000	116,640,000
Total Loans Payable	58,320,000	116,640,000
Less: Current Portion		
2 nd Tranche	-	-
3 rd Tranche	58,320,000	58,320,000
Total Current Portion	58,320,000	58,320,000
Loans Payable - Local, net of current portion	-	58,320,000

1st Tranche—P500,000,000 and 2nd Tranche – P500,000,000

The 1st Tranche was fully repaid in 2009 while the 2nd Tranche was fully paid in 2011.

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:

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
2012	58,320,000	58,320,000

19. DEFERRED CREDITS

This account consists of:

	2012	2011
Interest Earned but not yet Collected		
Interest on Non-Performing Loans	239,305,128	223,792,048
Capitalized Interests	541,725,880	279,244,783

Interest on Restructured Loans	381,773,867	381,773,867
Deferred Income from Feasibility Studies (FS) & Construction Supervision (CS)	157,694,703	157,694,703
Deferred Income from Housing Loan	18,145,713	18,752,416
Unearned Income from Well Drilling Contracts	5,515,677	3,948,528
Unearned Income from Engineering Study	1,138,702	708,702
	1,345,299,670	1,065,915,047
Less: Interest on NPLs offset against Interest Receivables (see Note 6)	239,305,128	223,792,048
Capitalized Interests offset against Long-Term Receivables (see Note 9)	541,725,880	279,244,783
Interest on Restructured Loans offset against Restructured Rec. (see Note 9)	381,773,867	381,773,867
Deferred Income from FS and CS offset against Misc. Receivables - Water Districts (PSF) (see Note 12)	157,694,703	157,694,703
Deferred Income from Housing Loan offset against Loans Receivables - Officers and Employees (see Note 9)	18,145,713	18,752,416
	1,338,645,291	1,061,257,817
	6,654,379	4,657,230

Deferred Income from Housing Loan are interests on loans extended to LWUA officers and employees under the multi-purpose loan program. (see Note 9)

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.

Interest Earned but not yet 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 amount totaling P1,162.80 million in December 31, 2012 and P884.81 million as at December 31, 2011 were offset against the water districts' receivable account for financial statement presentation only.

20. 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.

21. 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.

22. RETAINED EARNINGS

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

23. INTEREST INCOME

This represents interest income from lending operations. (see Note 6)

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.

24. MISCELLANEOUS INCOME

Details of this account are as follows:

	2012	2011
Miscellaneous fees	1,482,107	1,989,135
Interest on savings deposits and investments in bonds	9,324,423	5,468,752
Open account billings from various WDs (see Note 6)	5,807,744	24,477,666
Income from LWUA Dorm	465,375	-
Interest income on housing and car loans to employees	288,671	3,633,107
	17,368,320	35,568,660

25. OPERATING EXPENSES

This account consists of:

	2012	2011
<i>Personal Services</i>		
Other Bonuses and Allowances	45,875,300	85,249,997
Salaries and Wages - Regular	215,291,583	200,100,474
Additional Compensation (ADCOM)	30,772,545	119,529,122

Other Personal Benefits	42,895,152	46,524,132
Personnel Economic Relief Allowance (PERA)	13,173,952	13,677,331
Life and Retirement Insurance Contributions	26,542,113	22,964,647
RATA	21,843,606	20,159,617
Clothing/Uniform Allowance	2,805,000	3,544,000
PHILHEALTH Contributions	2,228,025	2,070,175
Terminal Leave Benefits	3,962,057	2,064,080
PAG-IBIG Contributions	606,800	742,200
ECC Contributions	717,600	685,166
Honoraria	3,000	55,000
	406,716,733	517,365,941

Maintenance and Other Operating Expenses

Professional Services	24,765,668	25,991,440
Confidential, Intelligence, Extraordinary and Miscellaneous Expenses	1,141,152	17,087,252
Travelling Expenses	9,655,055	7,949,888
Utility Expenses	14,936,313	14,126,012
Taxes, Fidelity Bond Premiums and Other Fees	5,068,439	11,988,209
Repairs and Maintenance	3,905,762	3,976,572
Supplies and Material Expenses	3,718,158	3,822,096
Advertising Expenses	959,100	1,567,155
Communication Expenses	3,439,782	3,929,214
Training and Scholarship Expenses	4,997,235	2,940,644
Other Maintenance and Operating Expenses	431,557	2,566,572
Subsidies and Donations	2,436,432	667,016
Insurance	1,433,117	1,626,370
Rent Expenses	611,570	645,598
Subscription Expenses	183,835	142,815
Service Expenses	9,725,367	15,478,072
Bad Debts Expense	-	1,409,950,908
Depreciation	26,266,674	46,748,613
	520,391,949	2,088,570,387

Financial Expenses

Interest Expenses		
Foreign	218,824,537	282,992,976
Local	64,658,861	90,422,125
WD Deposit Portfolio	3,147,182	5,551,893
	286,630,580	378,966,994
Bank Charges	69,584	64,977
	286,700,164	379,031,971
	807,092,113	2,467,602,358

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.

26. INCOME TAXES

The provision for current income tax represents Regular Corporate Income Tax.

Numerical reconciliation between tax expense and the product of accounting income multiplied by the tax rate of 30% in 2012 and 2011 are as follows:

	2012	2011
Accounting Income	944,840,328	(1,361,456,861)
Tax Expense at 30%	283,452,099	(408,437,058)
Tax Effect on non-deductible interest expense	1,062,984	623,438
Tax Effect on non-taxable interest income	(2,345,107)	(1,508,217)
Tax Effect on non-taxable gain on forex	(205,066,769)	-
Total	77,103,207	(409,321,837)

Details of current tax are as follows:

	2012	2011
Sales/Revenue/Receipts/Fees	1,062,720,911	1,179,098,776
Less: Cost of Services	741,084,795	1,042,677,166
Gross Income from Operations	321,636,116	136,421,610
Non-Operating Taxable Other Income	39,424,937	55,989,576
Total Gross Income	361,061,053	192,411,186
Less: Deductions	104,050,363	146,866,403
Net Taxable Income	257,010,690	45,544,783
Tax Rate	30%	30%
Current Tax	77,103,207	13,663,435

Details of computed Income Tax Benefit are as follows:

	2012	2011
Bad Debts, End	3,819,664,230	3,819,664,230
Less: Allowance for Bad Debts, Beginning	3,819,664,230	2,409,713,322
Provision for Bad Debts	-	1,409,950,908
Tax Rate	30%	30%
Income Tax Benefit	-	422,985,272

The computed Income Tax Benefit does not include the CY 2012 gain on foreign exchange.

As stated in Note 29, 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.

27. 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 RDPolicarpio & 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 BogoCity, 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, (SCA 10-30771) RTC 6th JR Br 23 Iloilo

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

I. 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 defendant's Tallado & Vinhar Construction. Next hearing on January 30, 2013.

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 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: Presentation of Evidence for Preliminary Mandatory Injunction.

q. Moalboal Water District vs. The municipality of Moalboal, Cebu, et al.

Civil Case No. CEB-BAR-415, RTC-7th JR Branch 60, Barili, Cebu

Injunction and Damages with prayer for Temporary Restraining Order in relation to the refusal of Municipality of Moalboal to turn over the operation of Moalboal Waterworks to Moalboal Water District or to LWUA.

r. Felipe Sarmiento vs. Hon. Victor C. Fernandez, Deputy Ombudsman for Luzon, et al., Hon. Orlando C. Honrade, Administrator of LWUA and/or the Board of Directors of San Pedro WD

CA G.R. No. 106077, CA Special 17th Division

Petition for Writ of Prohibition with prayer for a Temporary Restraining Order in relation to the authority of LWUA to implement the decision of the Office of the Ombudsman.

s. Tapilon Rural Waterworks and Sanitation, Inc. (TARWASAI) vs. Daanbantayan Water District (Cebu), Mun, of Daanbantayan, Cebu; LWUA Land Bank of the Philippines & First Agro Industrial Rural Bank.

Bogo-02142, RTC-7th JR Branch 61, BogoCity, Cebu

Petition for nullification of Mun. Res., Deed of Transfer, Writ of Preliminary Injunction and Accounting and Damages with prayer for TRO; questioning the formation by LWUA of the Daanbantayan WD

Status: Awaiting court order of the next schedule of hearing

t. Ticazo vs. CSC Director Ragucos, LWUA Administrator Landingin & Interim General Manager Edwin Reyes

SCA Case No. 002-10, RTC-1st JR Br. 27, San Fernando, la Union

For Mandamus with Application and prayer for Writ of Preliminary injunction questioning the Board Res. No. 02309 dated 11-10-09 of Metro La Union WD Board of Directors requesting LWUA for technical assistance and administrative support, LWUA Board Res. No. 628 dated 11-17-09 approving the management and takeover of MLUWD and designating Edwin R. Reyes as IGM and the order of Dir. Ragucos of CSC dated 03-22-10.

Status: Filed Memorandum on April 4, 2012 with Court of Appeals

u. LWUA Employees' Association for Progress (LEAP) & Melanio B. Cuchapin II vs. LWUA and Daniel I. Landingin

Civil Case No. Q-10-66925, RTC-NCR Br. 85, QC

Petition for Indirect Contempt for the violation of the injunction granted by RTC-QC (Br. 92) when 60 LWUA employees were mobilized to LWUA Consult, Inc.

Status: Consolidated with Special Proc. No. 06-59047

- v. **Sesinando Potenciano, Jr. & Marie Tabotabo vs. Hon. Constancio Suevo III, Hon. Flora Jusay, members of the Sangguniang Bayan of Tuburan, Cebu, Rodolfo Gallarde, Paulino Estreba, Elias Gallarde, Ada Acha & Leon Montesor, members of BOD of Tuburan WD and LWUA Acting Administrator Daniel I. Landingin**

Civil Case No. T-2194, RTC-7th JR Branch 29, Toledo City

For declaration of nullity of SB Res. No. 2009 38-A, Quo Warranto and Nullification of Appointment of BOD of Tuburan WD, Stoppage of the Processing and Release of Loan from LWUA and injunction with prayer for issuance of TRO and preliminary injunction.

Status: In order dated Sep. 27, 2011, the case is ordered dismissed for failure of the plaintiffs to submit their Pre-trial Brief & for repeated failure to appear during the scheduled dates for pre-trial conference.

- w. **LEAP, et al. vs. LWUA et al.**

Civil Case No. SP-Q-12-70827, RTC-NCJRBr. 92, QC

Injunction/Prohibition with Application for TRO and/or Writ of Preliminary Prohibitory Injunction stoppage of COLA and Amelioration Allowance

Status: Motion for Reconsideration denied in the Order dated July 25, 2012

- x. **Lida A. Tablo vs. LWUA, Antonieta Fortuna-Ibe, Carlos Primo C. David and Manolo Kagahastian**

Civil Case No. Q-12-70845, RTC-NCJRBr. 87, QC

Specific Performance and Damages with Application for Writ of Prelim Mandatory Injunction

Status: Next hearing is on Feb. 7, 2013

- y. **Atty. Rodolfo S. De Jesus vs. LWUA**

Civil Case no. Q-12-71190, RTC-NCJRBr. 80, QC

Mandamus with Application for Writ of Mandatory injunction filed April 27, 2012

Status: Received by LWUA May 3, 2012. MR deemed submitted for resolution.

- z. **Municipality of Pontevedra vs. LWUA and Pontevedra Water District**

Civil Case no.1357, RTC-6th Judicial Region, La Carlota City, Negros Occ.

Petition for Dissolution of Pontevedra WD & the transfer and/or Assumption of the Operation, control and management of the Water Service of the Municipality of Pontevedra, Negros Occidental.

Status: OIC of Pontevedra WD did not object to the dissolution of Pontevedra WD.

28. SUPPLEMENTARY INFORMATION REQUIRED BY REVENUE REGULATIONS NO. 19-2011

Sales/Revenues

Sale of Services	Amount
Service Income - Engineering Study	11,734,029
Service Income - Construction Supervision	16,227,866
Service Income - Well Drilling	1,841,151
Service Income - Systems Development	185,000
Operating Income - Interests	1,032,732,866
	1,062,720,912

Cost of Sales/Services

Cost of Services	Amount
Salaries and Allowances	262,043,079
Fringe Benefits (Honoraria/Year-end Bonus)	44,270,386
GSIS, Philhealth, HDMF and Other Contributions	76,951,747
Representation and Entertainment	21,843,606
Losses	43,093,726
	448,202,544
Well Drilling Operating Expenses	1,976,258
Construction Supervision Expenses	3,889,683
Engineering Study Expenses	3,849,154
Watershed Management Service Expenses	10,272
Bank Charges	69,584
Interest Expense on Foreign Loans	218,824,537
Interest Expense on Domestic Loans	61,115,581
Interest Expense on WD Deposits	3,147,182
	292,882,251
	741,084,795

Non Operating and Taxable Other Income

Non-Operating Taxable Other Income	Amount
Interest Income from Housing/Car Loan	288,671
Seminar Fees	3,903,900
Fines and Penalties	26,837,858
Income from LWUA Dorm Operations	465,375
Miscellaneous Income	
Dividend On Stock	-
Miscellaneous Income	7,289,850
Gain on Sale/Disposal of Fixed Assets	639,282
	<u>39,424,936</u>

<u>Itemized Deductions</u>	Amount
Itemized Deductions	
Rental	611,570
Professional Fees	3,730,688
Director's Fees	1,604,914
Management and Consultancy	7,635,232
Janitorial and Messengerial Services	13,399,748
Advertising	959,100
Repairs and Maintenance	3,905,762
Office Supplies	2,866,095
Insurance	1,433,117
Transportation and Travel	9,655,055
Fuel and Oil	852,063
Communication, Light and Water	18,376,096
Taxes and Licenses	3,397,155
Depreciation	26,266,674
Charitable Contributions	2,436,432
Miscellaneous	1,141,152
Others	5,779,510
	<u>104,050,363</u>

29. 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 totalled P122,055,925 broken down as follows:

Corporate Income Taxes Paid -		
First Quarter 2012	45,443,147	
Second Quarter 2012	31,660,063	
Third Quarter 2012	-	
<hr/>		
Total Before Income tax Benefit	77,103,210	-
Provision for Income Tax	77,103,207	
Add: Fringe Benefit Taxes	646,816	219,758
Documentary Stamp Tax	2,368,701	
<hr/>		
Total Taxes and Licenses	80,118,724	219,758
<hr/>		
Withholding Taxes		
On Compensation	32,791,223	
Creditable Withholding Taxes	3,922,438	
Final Withholding Taxes	4,586,325	
On WDDP Deposits	637,215	
<hr/>		
Total Taxes Withheld	41,937,201	-
<hr/>		
Total Taxes and Licenses Paid/ Accrued/ Withheld	122,055,925	219,758
<hr/>		

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 29, 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.

30. COA AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES – P1,210 MILLION FOR 2004 TO 2010

In addition to the Notice of Disallowances (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.

31. INSTITUTIONAL REFORMS MOVING FORWARD

As part of its reforms, the New Board is currently revisiting LWUA's current policies and instituting the following reforms:

- 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 therecognition 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.

PART II
A. COMMENTS AND OBSERVATIONS

This Part consists of two sections: A.1. *Current Year's Audit Observations and Recommendations* and A.2 *Reiteration of Audit Observations and Recommendations*.

All the audit observations and recommendations contained in the Annual Audit Report for CY 2011 are all reiterated herein as the AAR was released only in June 2013, only weeks ahead of the release of this Report. We are therefore requesting Management to fully address the audit issues raised therein and to implement the audit recommendations.

A.1 Current Year's Audit Observations and Recommendations

1. **As financial assistance under NLIF–PSF totaling P2.362 billion extended to 231 water districts (WDs) from CYs 2009 to 2011 for water supply projects using corporate funds could not be treated on a 50%-50% loan grant mix under the NLIF Program as no PSF funds were actually released to LWUA, the Memorandums of Understanding (MOUs) between LWUA and the WDs were considered void because PSF did not exist at the time of the execution thereof. The Board-authorized conversion of said financial assistance into LWUA Internally Cash Generated (ICG) soft loans recorded as *Receivables from Water Districts*, was likewise without any valid basis for the amount of P2.222 billion or 94% of total financial assistance pertaining to 214 water districts, as there were no board resolutions and loan agreements evidencing acceptance of the conversion by the latter, and for the remaining amount of P140.03 million or 6% released to 17 water districts, the acceptance was documented only with board resolutions of the latter without loan agreements between them and LWUA.**
 - 1.1 As reported in the Annual Audit Report (AAR) for CYs 2009 and 2010, there was “verbal” commitment of funding from the Office of the President- President's Social Fund (OP-PSF) that it would release P6.0 billion to the water districts for water supply projects under the President's Priority Program (P3W) for waterless municipalities/barangays and to grant financial assistance for the improvement of the water supply system of existing water districts.
 - 1.2 Pending the receipt of the PSF funds, LWUA implemented the NLIF – PSF Program using corporate funds, and in turn, LWUA was to replenish its corporate funds out of the PSF upon its receipt from the PSF. The release of funds to water districts was supported with Memorandum of Understanding between LWUA and water district concerned stating the total project cost, the funding source which was NLIF and the extension of the NLIF on a 50%-50% loan grant mix and that the NLIF loan portion shall be interest free. After the completion of the project as stated in the MOU and evaluation of the Loans and Water Rates Evaluation Department, the corresponding Financial Assistance Contract/Loan Agreement will be executed. .

- 1.3 In CY 2009, a total of P1.17 billion was reported to have been released to water districts using Corporate Fund as no PSF was received during the year. On the other hand, in CY 2010, despite the non-receipt of PSF in CY 2010, the LWUA Management continued to release funds to various water districts totaling P1.18 billion using Corporate Fund. In CY 2011, the LWUA likewise continued to release funds to the water districts totaling P0.012 billion. Thus, a total of P2.362 billion was released from CY 2009 to CY 2011. Based on a subsequent confirmation from the Office of the President, there was no such fund for the purpose. Shown in Table A1.1.1 are the details of P2.362 billion released to water districts.
- 1.4 Our verification disclosed the following entries in recording the fund releases to the water districts.

A. Upon the release of fund to Water Districts (CY 2009, 2010 and early 2011)	
<i>Debit:</i>	Liability for Special Funds – PSF
<i>Credit:</i>	Cash in Bank
B. At the end of each year – CY 2009 and 2010	
<i>Debit:</i>	Miscellaneous Receivables – GOP (Government of the Philippines)
<i>Credit:</i>	Liability for Special Fund – PSF

Table A1.1.1
Breakdown of P2.362 Billion Releases to Water Districts
From 2009 to 2011

	<i>Water Districts</i>	Funds Released by LWUA out of Corporate Funds	Remarks
1	Agoncillo, Batangas	16,496,420.00	
2	Alcala, Pangasinan	14,039,364.17	
3	Alicia, Isabela	21,826,621.50	
4	Allacapan, Cagayan	13,467,645.00	See Table A1.1.2
5	Amulung, Cagayan	9,521,804.88	
6	Anilao, Iloilo	6,567,950.00	
7	Aroroy, Masbate	23,815,205.15	
8	Aspen Multi- System Corp.	98,899,999.20	
9	Atimonan, Quezon	17,567,500.00	
10	Bacacay, Tabaco	5,249,009.00	
11	Bacolod-Kalawi , Lanao DS	7,009,488.00	
12	Bacolor, Pampanga	6,237,875.00	
13	Bacauag, Surigao del Sur	13,289,216.00	

14	Balanga , Bataan	2,632,748.00	
15	Balaoan, La Union	7,038,628.00	
16	Balatan, Iriga	3,820,114.84	
17	Balayan, Batangas	16,466,620.00	
18	Baler, Aurora	6,020,920.00	
19	Balindong, Lanao del Sur	8,892,666.00	
20	Balungao, Pangasinan	13,781,588.62	
21	Banate, Iloilo	5,400,000.00	
22	Bangui, Ilocos Norte	9,266,260.00	
23	Baras, Virac City	14,067,153.92	
24	Barbaza, Antique	3,235,291.57	See Table A1.1.2
25	Barcelona, Sorsogon	21,110,320.00	
26	Bato, Camarines Sur	4,999,999.99	
27	Bato, Catanduanes	2,499,114.85	
28	Bayambang, Pangasinan	16,782,000.00	
29	Bayang, Lanao DS	9,961,827.00	
30	Baybay, Leyte	11,045,460.00	See Table A1.1.2
31	Belison, Antique	3,639,621.04	
32	Benito Soliven, Isabela	9,010,000.00	
33	Binalbagan , Negros Occidental	23,463,386.50	
34	Binalonan , Pangasinan	15,043,840.00	
35	Bocaue , Bulacan	18,728,506.00	
36	Boliney , Abra	9,221,684.24	
37	Bongabon, Nueva Ecija	5,566,218.57	
38	Botolan, Zambales	6,359,448.00	
39	Buenavista , Agusan	5,962,924.88	
40	Buenavista, Guimaras	1,736,117.00	
41	Bulacan , Bulacan	13,313,051.00	
42	Bulalacao, Oriental Mindoro	14,210,957.00	
43	Bunawan , Agusan del Sur	272,095.00	
44	Burdeos, Quezon	9,257,401.00	
45	Burgos, Surigao del Norte	12,643,150.28	
46	Cabagan, Isabela	(2,295,501.59)	
47	Cabarroquiz, Quirino	1,438,050.00	
48	Cabuyao , Laguna	6,000,000.00	
49	Calabanga, Camarines Sur	3,250,000.00	
50	Calamba, Laguna	13,424,183.00	
51	Calasiao, Pangasinan	12,140,221.00	
52	Calatagan , Batangas	12,511,995.80	
53	Calauag, Quezon	6,198,511.60	
54	Calbayog, Western Samar	7,528,000.00	See Table A1.1.2

55	Calbiga, Samar	8,428,082.60	
56	Calumpit , Bulacan	9,880,090.00	
57	Camalig, Albay	17,431,728.02	
58	Candelaria, Zambales	3,292,129.00	
59	Cantillan, Surigao del Sur	2,425,774.57	
60	Carmen, Davao del Norte	3,304,303.64	
61	Carmona, Cavite	19,694,893.00	
62	Catanauan , Quezon	9,477,424.00	
63	Catarman, Northern Samar	8,723,760.00	
64	Catbalogan , Samar	7,994,584.00	
65	Central Leyte, Leyte	3,000,498.00	
66	Concepcion, Iloilo	913,308.00	See Table A1.1.2
67	Concepcion, Tarlac	6,037,374.00	
68	Cordon, Isabela	9,106,735.76	
69	Culasi, Antique	8,365,465.43	See Table A1.1.2
70	Culio, Palawan	7,138,945.00	
71	Cuyapo, Nueva Ecija	569,184.00	
72	Dagupan City, Pangasinan	11,583,944.96	
73	Danglas, Abra	11,492,287.00	
74	Datu Paglas, Maguindanao	8,745,374.00	
75	Diffun, Quirino	9,996,832.10	
76	Dinalupihan, Bataan	876,390.73	
77	Dingras, Ilocos Norte	9,082,673.00	
78	Dipaculao, Aurora	7,658,737.00	See A1. 1.2
79	Dolores, Quezon	14,707,106.00	
80	Don Carlos,Bukidnon	1,760,000.00	
81	Donsol, Sorsogon	7,124,618.69	
82	Duenas, Iloilo	1,500,000.00	
83	Dulag, Tacloban City	9,742,330.00	
84	Dumarao, Capiz	3,129,540.00	
85	Floridablanca, Pampanga	27,165,701.15	
86	Gabaldon, Nueva Ecija	4,100,000.00	
87	Gamay, Northern Samar	4,347,810.00	
88	Ganassi , Lanao DS	9,767,035.00	
89	Gapan,Nueva Ecija	24,142,916.00	
90	Gattaran, Cagayan	9,635,700.00	
91	Gen. Aguinaldo, Cavite	13,645,731.00	
92	Gerona, Tarlac	8,313,365.00	
93	Gingoog City, Misamis Oriental	8,571,584.08	See Table A1.1.2
94	Glan,Sarangani	15,424,148.00	See Table A1.1.2

95	Gonzaga, Cagayan	6,704,923.27	
96	Guagua, Pampanga	20,898,160.94	
97	Guigaquit, Surigao del Norte	1,095,000.00	
98	Guimba, Nueva Ecija	8,464,122.00	
99	Guiuan, Eastern Samar	4,703,000.00	
100	Gumaca, Quezon	7,675,882.00	
101	Hernani, Eastern Samar	(2,567,688.24)	
102	Himamaylan, Negros Occidental	15,000,000.00	
103	Ifugao, Lagawe	843,264.00	
104	Ilagan, Isabela	6,350,300.00	
105	Ilog, Negros Occidental	2,400,000.00	
106	Indang, Cavite	14,332,721.00	
107	Ipil-Titay, Zamboanga Sur	4,132,379.00	
108	Iriga City, Camarines Sur	11,442,901.16	
109	Irosin, Sorsogon	6,576,128.03	
110	Jaen, Nueva Ecija	13,446,979.04	
111	Jolo Mainland, Sulu	10,083,616.00	
112	Jose Panganiban, Camarines Norte	2,534,015.00	
113	Jordan, Guimaras	1,251,631.30	
114	Kapatagan, Lanao del Norte	8,921,530.00	
115	Kauswagan, Lanao del Norte	(2,457,748.00)	
116	Kiblawan, Davao del Sur	1,200,000.00	
117	Kolambugan, Lanao del Norte	3,159,686.00	
118	Koronadal, South Cotabato	4,000,000.00	
119	La Carlota City, Negros Occidental	25,697,600.00	
120	La Castellana, Negros Occidental	9,500,000.00	
121	Laguindingan, Misamis Oriental	7,756,986.00	
122	Lal-lo, Cagayan	8,730,100.00	
123	Langiden, Bangued	23,650,607.43	
124	Lasam, Cagayan	24,119,338.00	
125	Lavezarez, Northern Samar	5,573,889.20	
126	Lemery, Iloilo	4,000,000.00	See Table A1.1.2
127	Lian, Batangas	20,143,749.00	
128	Libmanan, Sipocot	8,561,700.00	
129	Lingayen, Pangasinan	10,145,863.88	
130	Lopez, Quezon	12,857,401.00	
131	Luba, Bangued	8,683,917.12	
132	Lubang, Occ. Mindoro	6,431,468.00	

133	LubaoPampanga	13,850,964.00	
134	Lupao, Nueva Ecija	5,776,617.00	
135	Lupon, Davao Oriental	10,139,265.00	
136	Mabalacat, Pampanga	13,939,657.00	See Table A1.1.2
137	Madalum, Lanao del Sur	8,173,488.00	
138	Magsinagal,Ilocos Sur	6,414,794.80	
139	Malay, Aklan	8,506,901.50	See Table A1.1.2
140	Malungon, Sarangani	10,544,618.36	
141	Mapandan, Pangasinan	7,640,900.00	
142	Marawi City, Lanao del Sur	6,572,157.00	
143	Marilao, Bulacan	12,372,435.00	
144	Marogong, Lanao del Sur	4,983,058.00	
145	Masantol, Pampanga	9,586,617.00	
146	Masinloc, Zambales	11,493,602.00	
147	Masiu, Lanao del Sur	8,382,110.00	
148	Mati, Davao Oriental	6,161,000.00	
149	Mayantoc, Tarlac	5,745,515.00	
150	Mendez, Cavite	15,956,936.00	
151	Metro Hilongos, Leyte	12,564,422.40	See Table A1.1.2
152	Metro La Union, La Union	24,498,322.08	
153	Miagao, Iloilo	2,300,000.00	
154	Misamis Occ, Misamis Occ	15,535,412.00	
155	Moncada, Tarlac	10,000,000.00	
156	Morong, Bataan	796,484.00	
157	Morong, Rizal	4,925,820.00	
158	Murcia, Bacolod	4,786,598.40	See Table A1.1.2
159	Nabua, Camarines Sur	7,123,153.95	
160	Nabunturan, Davao del Norte	39,076.69	
161	Narvacan, Ilocos Sur	46,640,128.00	
162	Nasugbu, Batangas	31,074,380.00	
163	Naval, Biliran	15,690,000.00	
164	New Corella, Davao del Norte	10,339,806.00	
165	Norzagaray, Bulacan	11,607,566.00	
166	Nueva Era, Ilocos Norte	26,521,632.00	
167	Numancia, Aklan	18,823,702.32	
168	Orani, Bataan	10,737,779.00	
169	Pagsanjan, Laguna	16,306,172.00	
170	Pagudpud, Ilocos Norte	6,449,600.00	
171	Palauig, Zambales	17,791,612.00	
172	Pandan, Antique	5,055,940.81	

173	Paniqui, Tarlac	20,070,716.03	
174	Pasacao, Camarines Sur	4,471,085.91	
175	Penaranda, Nueva Ecija	863,261.00	
176	Pilar, Capiz	1,018,750.00	
177	Pilar, Sorsogon	18,286,598.79	
178	Pililla, Rizal	22,463,945.00	
179	Polanco, Zamboanga Norte	10,964,891.95	See Table A1.1.2
180	Polilio, Quezon	4,623,180.00	
181	Porac, Pampanga	22,356,880.00	
182	Pozorrubio, Pangasinan	15,245,000.00	
183	Pres. Roxas, Zamboanga	794,250.00	
184	Pualas, Lanao del Sur	5,604,734.00	
185	Quezon, Bukidnon	9,450,000.00	
186	Rosales, Pangasinan	21,210,125.72	
187	Roxas, Palawan	7,502,032.00	
188	Sagay, Negros Occidental	7,000,000.00	
189	San Andres, Catanduanes	4,403,750.00	
190	San Antonio, Zambales	9,835,703.00	
191	San Felipe, Zambales	5,698,990.00	
192	San Fernando, Pampanga	10,000,000.00	
193	San Guillermo, Isabela	25,020,000.00	
194	San Isidro, Isabela	13,514,200.00	
195	San Joaquin, Iloilo	3,528,000.00	See Table A1.1.2
196	San Jose City, Nueva Ecija	12,523,713.26	
197	San Jose, Northern Samar	4,686,760.00	
198	San Jose, Oriental Mindoro	9,772,623.00	
199	San Juan, Batangas	14,186,170.00	
200	San Luis, Batangas	14,000,000.00	
201	San Miguel, Bulacan	1,941,058.00	
202	San Nicolas, Pangasinan	10,749,149.00	
203	San Quintin, Pangasinan	5,950,760.00	
204	San Rafael, Bulacan	7,795,658.00	
205	San Rafael, Iloilo	5,500,000.00	See Table A1.1.2
206	Sanchez Mira, Cagayan	19,963,104.00	
207	Sasmuan, Pampanga	6,668,511.00	
208	Siay, Zambo., Sibugay	10,777,668.00	
209	Sibalom, Antique	6,318,799.20	
210	Sinait, Ilocos Sur	8,977,152.00	
211	Siocon, Zamboanga Norte	15,973,819.00	
212	Socorro, Surigao del Norte	14,452,700.00	
213	Sta. Maria, Pangasinan	5,410,000.00	

214	Sta. Praxedes, Cagayan	11,580,248.00	
215	Sta. Rosa, Nueva Ecija	1,150,724.87	
216	Sto. Nino, South Cotabato	8,772,806.00	
217	Sto. Tomas, Isabela	9,215,655.97	
218	Sulat, Eastern Samar	12,216,989.80	
219	Tagoloan, Misamis	17,194,634.00	
220	Tangub, Misamis Occ.	16,012,745.00	
221	Tanjay, Negros Oriental	4,796,925.00	
222	Tarak , Lanao del Sur	15,878,964.00	
223	Taytay, Puerto Princesa	11,137,953.00	
224	Teresa, Rizal	6,902,966.00	
225	Tiaong, Quezon	11,446,512.00	
226	Tubeo, Abra	11,234,845.18	
227	Umingan, Pangasinan	10,300,000.00	
228	Unisan, Quezon	3,284,563.00	
229	Urdaneta, Pangasinan	16,751,561.00	
230	Victoria, Northern Samar	2,906,040.00	
231	Vincenzo Sagun, Zamboanga DS	12,178,000.00	
	TOTAL	2,362,358,309.86	

- 1.5 In September 2011, the former Acting Administrator of the LWUA, requested an opinion to the Office of the Government Corporate Counsel, concerning the financial assistance extended to water districts through the Non-LWUA Initiated Funds (NLIF). This NLIF program which began during the previous Administration was implemented by LWUA using its corporate funds covering partial releases to recipient water districts, while relying on the verbal commitment from the Office of the President that the latter will release P6 billion from the President's Social Fund (PSF) to be used for this purpose. LWUA intended to replenish its corporate funds out of the PSF upon its release to LWUA. However, the release of the PSF was no longer feasible due to the change in Administration.
- 1.6 In its Opinion No. 219 series of 2011 dated October 10, 2011, the OGCC stated that:
- a. 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, were not legally in order.
 - b. Since the source of funds was 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.

- c. Persons who processed, approved and certified the existence of PSF funds and released such amounts may be held responsible.
 - d. The MOUs entered by LWUA with the WDs where no funds were initially released are considered “void” and that grants to WDs cannot 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.
- 1.7 As no PSF funds were released to LWUA and thus NLIF-PSF financial assistance already extended to the WDs could not be properly treated as grants and in view of the above Opinion of the OGCC that MOUs between LWUA and the WDs were considered void because PSF did not exist at the time of the execution thereof, the LWUA Board of Trustees issued Resolution No. 01, Series of 2012 dated January 3, 2012, adopting the new policy guidelines to govern the conversion of NLIF-PSF Grants to LWUA Internally Cash Generated (ICG) and terms of NLIF, as follows:
- a. The policies shall apply to NLIF-PSF Financial Assistance funded by LWUA ICG extended to various water districts during the administration of former LWUA Chairman Prospero A. Pichay, Jr.
 - b. All releases to water districts under NLIF-PSF Projects funded by LWUA ICG shall be reclassified from PSF Grants to LWUA ICG Soft Loans, provided that the total amount of reclassified ICG Soft Loans shall not exceed 50% of the project cost.
 - c. Reclassified LWUA ICG soft loans shall be subject to interest at the rate of 2% per annum, commencing upon the completion of the project
 - d. The principal amount of reclassified LWUA ICG Soft Loans shall be payable in equal, consecutive monthly installments for a maximum period of 25 years, commencing upon the completion of the project.
 - e. The LWUA Legal Department shall prepare separate documentation for reclassified LWUA ICG soft loans and subsequent loan releases, if any, to complete the PSF projects.
- 1.8 Pursuant to the above Resolution, the conversion of NLIF-PSF grants into ICG soft loans was effected with the following entries:

a. In CY 2011, the account “Miscellaneous Receivables – GOP” was closed as no PSF was received from the OP under <u>JV No. 12-111-11</u> dated <u>December 2011</u>	
<i>Debit:</i> Other Deferred Charges - Receivable from WD – PSF	P 2,141,032,388.90
<i>Debit:</i> Loans Receivable – WD	P 221,325,920.06
<i>Credit:</i> Miscellaneous Receivable – GOP	P 2,362,358,308.96
b. Reclassification was made under JV No. 12-192-2011 and Control No. CN015563 dated December 31, 2011, as follows:	

<i>Debit:</i> Receivables from Water Districts – PSF	P 2,362,358,308.96
<i>Credit:</i> Other Deferred Charges - Receivable from WD – PSF	P 2,141,032,388.90
<i>Credit:</i> Loans Receivable – WD	P 221,325,920.06

- 1.9 In May 2012 in view of the recommendation of LWUA Management to reclassify all releases under NLIF-PSF projects regardless of amount into ICG soft loans at 2% interest per annum, the Board of Trustees issued Resolution No. 60, Series of 2012 approving the Management's recommendation.
- 1.10 It is worth mentioning that the present LWUA Management has filed a case with the Office of the Ombudsman against the former LWUA Chairman and former Members of the Board of Trustees on the use of LWUA Corporate funds for Non-LWUA Initiated Funds (NLIF).
- 1.11 Our verification disclosed that of the P2.362 billion fund releases to water districts converted into soft loans, the amount of P140.030 million as of May 31, 2013 **were supported with Water Districts' Board Resolutions, but without loan agreements/memorandum of agreement to establish the existence of loans.** Shown in Table A1.1.2 below are the water districts which agreed on the conversion of the funds received into soft loans.

**Table A1.1.2
List of Water Districts Which Agreed on the Conversion into Soft Loans**

<i>Water District</i>		<i>Amount of Loans</i>
1. Allacapan	Cagayan	13,467,645.00
2. Barbaza	Antique	3,235,291.57
3. Baybay	Leyte	11,045,460.00
4. Calbayog	Western Samar	7,528,000.00
5. Concepcion	Iloilo	913,308.00
6. Culasi	Antique	8,365,465.43
7. Dipaculao	Aurora	7,658,737.00
8. Gingoog	Misamis Oriental	8,571,584.08
9. Glan	Sarangani	15,424,148.00
10. Lemery	Iloilo	4,000,000.00
11. Mabalacat	Pampanga	13,969,657.00
12. Malay	Aklan	8,506,901.50
13. Metro Hilongos	Leyte	12,564,422.40
14. Murcia	Negros Occidenta	4,786,598.40
15. Polanco	Zamboanga del Norte	10,964,891.95
16. San Joaquin	Iloilo	3,528,000.00
17. San Rafael	Iloilo	5,500,000.00
TOTAL		140,030,110.33

- 1.12 On the other hand, for the 214 water districts, no water districts board resolutions, financial assistance contracts/loan agreements/Memorandum of Agreements were submitted to support the acceptance of the conversion of fund

releases totaling P2.222 billion, into soft loans, as shown in Table A1.1.1. We gathered that Management continued negotiating with these WDs to agree on the conversion of the fund releases from grants into soft loans.

1.13 Management commented that inventory taking of the MOUs or Financial Assistance Contracts between LWUA and the WDs are currently undertaken for proper account reclassification; and that they will provide COA with a list of WDs who have agreed to the conversion to soft loan.

1.14 ***We recommended that Management immediately secure the acceptance by the water districts of the conversion of NLIF-PSF grants into LWUA ICG soft loans with board resolutions of water districts and corresponding revised loan agreements for the P2.222 billion fund releases to 217 water districts, and revised loan agreement with 17 water districts for the P140.03 million; and submit the same for audit.***

1.15 ***We will accordingly issue Notice of Disallowance for financial assistance under the NLIF-PSF Program without the acceptance by the water districts of the conversion into LWUA ICG soft loans.***

2. **Deferred Credits amounting to P941.64 million were offset against the Long-Term Receivables Account, contrary to PAS 32 Financial Instruments – Presentation and Disclosures.**

2.1 *PAS 32 Financial Instruments – Presentation and Disclosures* explicitly discussed on Financial Assets and Financial Liabilities presentation and strictly prescribes conditions under which assets and liabilities may be offset in the Balance Sheet. It provides for the definitions of the following:

- a. Financial Instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
- b. Financial asset is any asset that is:
 - cash
 - an equity instrument of another entity
 - a contractual right to receive
 - to receive cash or another financial asset from another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity
 - a contract that will or may be settled in the entity's own equity instrument...xxx:
 - a non-derivative for which the entity is or may be obliged to deliver a variable number of equity instruments or
 - a derivative that will or maybe settled other than by the exchange of a fixed instruments...xxx

- c. Financial liability is any liability that is:
- a contractual obligation:
 - to deliver cash or another financial asset to another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity;
 - a contract that will or maybe settled in the entity's own equity instruments and is:
 - a non-derivative for which the entity is or may be obliged to deliver a variable number of equity instruments or
 - a derivative that will or maybe settled other than by the exchange of a fixed instruments...xxx

2.2 Under the afore-mentioned definitions, the *Deferred Credits* accounts below which are reported on a net basis by the Management against the Long-Term Receivable accounts are covered by the said standard:

- a. The *Loans Receivables account* is classified as financial asset because it represents a contractual right to receive cash or other financial assets from another entity.
- b. The *Deferred Income from Housing Loan* pertains to interests during the life of the multi-purpose loans extended by administration to its officers and employees.
- c. *Uncollected Capitalized Interest* pertains to uncollected past due interests on non-accruing/non-earning loans where the income accrual is suspended until collection.
- d. *Deferred Interest from Restructured Loans* pertains to interests on restructured loans. These are included in the classification because technically, they all represent contractual obligation of LWUA to pay cash.

2.3 Review of the Notes to the Financial Statements for the period ended December 31, 2012 revealed that the following Liability accounts were offset against the Long-Term Receivables account in Balance Sheet:

Deferred Income from Housing Loan	18,145,713
Uncollected Capitalized Interest	541,725,880
<u>Deferred Interest from Restructured Loans</u>	<u>381,773,867</u>
	<u>941,645,460</u>

2.4 The figures above are the amounts presented in the Statement of Financial Position after effecting the set-off between the Long-Term Receivables and Deferred Credits accounts. The amount of balances before offsetting should be as follows:

Particulars	Assets	=	Liabilities	+	Equity
After offsetting	15,554,566,034	=	9,095,595,635		6,458,970,399
Off-setting	941,645,460	=	941,645,460		0.00
Before offsetting	16,496,211,494	=	10,037,241,095		6,458,970,399

Hence, the total assets should be reported as P16,496,211,494 and the total liabilities as P10,037,241,095, respectively.

2.5 As a general rule, it is not proper to offset the assets and liabilities in the balance sheet especially when the amounts are material. The total amount computed above is apparently material. Offsetting may be done when permitted by another PFRS. PAS 32 prescribes that financial assets and financial liabilities should be offset and the net amount reported when and only when, an entity (PAS 32.42):

- a. has legally enforceable right to set-off the amounts; and
- b. intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Using the fundamental accounting equation: Asset = Liabilities + Equity, we could determine the amount that should be presented by management while maintaining the balance in the equation.

2.6 The practice of presenting the financial assets and financial liability on a net basis would result into an understatement of total Assets account and corresponding understatement in the total Liabilities of the Balance Sheet while the Equity account or Net Assets remained unchanged. The total amount above was highly material so as to affect the decisions of the stakeholders and the users of the financial information. The total offsetting balance comprised about 5.7% of the total Assets and 9.3% of the total Liabilities that should be reported. Moreover, financial ratios would be adversely affected by the amount set-off as shown in the Table A1.2.1 below.

**Table A1.2.1
Financial Ratios**

Financial Ratio	Formula	Actual (a)	Should be (b)	% of Change (a-b) / b
Asset - Debt Ratio	$\frac{\text{Total Assets}}{\text{Total Liabilities}}$	1.644	1.710	3.85 % Lower
Debt to Asset Ratio	$\frac{\text{Total Liabilities}}{\text{Total Ave. Assets}}$	0.619	0.577	7.22 % Higher
Debt to Equity	$\frac{\text{Total Liabilities}}{\text{Total Ave. Equity}}$	1.679	1.522	10.31 % Higher
Equity Ratio	$\frac{\text{Equity}}{\text{Total Assets}}$	0.398	0.410	2.92 % Lower

	Total Ave. Assets			
Return on Total Assets	<u>Net Income</u> Total Ave. Assets	0.053	0.055	3.63 % Lower

As shown above, the offsetting of the *Deferred Credits* against the *Long-Term Accounts Receivables* changed significant financial ratios involving noncurrent assets and noncurrent liabilities.

- 2.7 ***We recommended and Management agreed that the Accounting Department strictly adhere to specific accounting standards and/or other pronouncements relating to the Generally Accepted Accounting Principles (GAAP) in order to reflect the fair presentation and proper classification of the accounts.***
3. **The year-end balance of account *Deferred Income from Feasibility Studies (FS) and Construction Supervision Cost (CSC)* at P157.69 million remained inactive since 2009 and was not properly stated as no amortization of service income had been effected.**
- 3.1 The General Ledger account information of the LWUA, third paragraph thereof, describes the *Deferred Income from FS and CSC* as “*the recognition of a deferred liability account in the LWUA books is deemed appropriate and in accordance with the generally accepted accounting principles (GAAP) considering the absence of monetary consideration at the time when services are performed. To credit the income account upon realization of the economic benefits will only cause ballooning of paper income in the LWUA books*”. On the other hand, *Deferred Credit* is defined as billed or collected revenues that are not recognized as income pending completion of the earning process.
- 3.2 On the other hand, Service Income – FS was recognized for the fee billed to WDs on the costs of the engineering services rendered by LWUA for the successful implementation of the Water Supply Sanitation Project, financed by LWUA. The engineering services include the preparation of feasibility studies and detailed engineering designs. While Service Income – CSC was recognized for billed construction supervision/monitoring costs incurred during the construction period.
- 3.3 Analysis of the *Deferred Income from Feasibility Studies (FS) and Construction Supervision Cost (CSS)* account showed that in December 2009, a journal entry was made to recognize deferred income from feasibility study and construction supervision cost, as shown below:

<i>Debit to</i>	
Service Income-Engineering Services	72,630,481
Service Income- Construction Supervision and Monitoring	85,064,222

<i>Credit to</i>	
Deferred Income from FS and CSC	157,694,703

Verification of the schedule attached to the Journal Voucher revealed that the P157,694,703 credited to Deferred Income from FS and CSC pertained to the FS - Projects with PSF Funding amounting to P72,630,481 and the CSC-Projects without project completion totaling P85,064,222.

- 3.4 Examination of the General Ledger further revealed that the account balance of Deferred Income from FS and CSC had been dormant/inactive since 2009 and no entry was made to recognize income from the FS and CSC.
- 3.5 ***We recommended that the Accounting Department conduct a thorough verification of Deferred Income from FS and CSC account and appropriate journal entries has to be drawn to reflect proper classification and presentation of the account balance.***
- 3.6 Considering that the account was set up in 2009 for engineering services rendered to the water districts for projects funded by NLIP as discussed in Comments and Observations No. 1, Management commented that the Loans Department will identify those Water Districts who have agreed to the conversion into soft loans and the service income will be properly amortized

4. Long-Term Investments amounting to P511.66 million were not recognized at their recoverable amount as of December 31, 2012, contrary to PAS No. 36.

- 4.1 PAS 36 (*Impairment of Assets*) provides that an asset is said to be impaired when its carrying amount exceeds its recoverable amount. The standard requires a company to assess at each reporting date whether there is an indication that an asset may be impaired, and if any such indication exists, said company shall estimate the recoverable amount of the asset. When the carrying amount of the asset exceeds its recoverable amount, an impairment loss should be recognized.
- 4.2 As disclosed in the Notes to Financial Statements, Long-Term Investments account included the following:

Account	Amount	Remarks
Advances to Express Savings Bank, Inc. (ESBI)	400,000,000	Operations taken by PDIC in 2011
Investments in Subsidiaries (LWUA Consult, Inc.)	80,003,070	Ceased operation since August 1, 2011
Advances to LWUA Consult, Inc.	31,655,558	Ceased operation since August 1, 2011
Total	511,658,628	

- 4.3 As shown above, the operations of Express Savings Bank, Inc. had been taken-over by PDIC while LWUA Consult, Inc. ceased operations in August. Thus, LWUA may not be able to recover said investments.
- 4.4 In view of LWUA management's failure to assess the recoverable amount of the subject investments as of December 31, 2012, despite indication that said investments are already impaired, the validity of the long-term investment account balance of P511,658,628 was doubtful due to the non-recognition of the impairment loss. and the expense account is understated and income is overstated
- 4.5 ***We recommended that Management:***
- a. ***Assess for impairment in value its investments at each balance sheet date and determine how much can be recovered from the investments in Express Savings Bank, Inc. and LWUA Consult, Inc;***
 - b. ***Recognize for impairment loss and effect the necessary adjustments; and***
 - c. ***Take an inventory of all the remaining assets left of LCI to be able to recover some of the investments.***
- 4.6 Management submitted the following comments:
- a. ESBI was taken over by PDIC in 2011. At present, there is an on-going court proceeding for the liquidation of the Bank being handled by the Office of the Government Corporate Counsel (OGCC). Until the court has finally terminated this proceeding, then this is the only time we can realize the final amount due to LWUA with respect to its investment. The Team will be provided with all the necessary documents with regard to said proceedings.
 - b. As to the Advances to LWUA Consult Inc., the Management sought compliance to the Notice of Disallowance by requiring former LCI officials to refund EMEs paid in CY 2010 which however is under appeal with COA Cluster Director.
- 4.7 ***As our rejoinder, we recommended that Management estimate the recoverable amount and recognize for impairment loss to present the Long-Term Investment at its net realizable value and take an inventory of all the remaining assets and consider selling them.***

5. The accuracy and validity of the year-end balances of Loans Payable – Bureau of Treasury and Loans Payable - LBP amounting to P5.371 billion and P5.430 billion, respectively, were not established due to unreconciled variances between the confirmed balances of Bureau of Treasury and LWUA books with the latter higher by P3.160 billion, and between the confirmed balances of the LBP and LWUA books with the latter lower by P14.580 million, as of December 31, 2012.

- 5.1 The outstanding balance per books of Loans Payables- Bureau of Treasury (BTr) and Land Bank of the Philippines (LBP) as of December 31, 2012 amounted to P5,429,786,916. Confirmation replies from the BTr and LBP showed a difference of P3,160,140,299 and P14,580,000, respectively. Details are shown below.

Particulars	Per LWUA Books	Per Confirmation	Difference
<i>BTr</i>			
Foreign-relent	1,465,711,714	2,177,921,614	712,209,900
Foreign-guaranteed	3,905,755,202	33,405,002	(3,872,350,199)
	5,371,466,916	2,211,326,617	(3,160,140,299)
<i>LBP</i>			
4808TL06319210	44,000,000	55,000,000	11,000,000
4808TL007319202	14,320,000	17,900,000	3,580,000
	58,320,000	72,900,000	14,580,000
Total	5,429,786,916	2,284,226,617	3,145,560,299

- 5.2 A reconciliation was conducted between the LWUA and the BTR – Foreign relent loans in 2011. However, no adjustments were effected in the books.

- 5.3 As regards Loans Payable – LBP, only for 2012 was not reconciled.

- 5.4 ***We recommended that Management require the Accounting Department to reconcile the noted variances/difference between the recorded balances of Loans Payable-Domestic and Foreign against the amount confirmed by the Bureau of Treasury and Land Bank of the Philippines, and to effect the necessary adjusting entries, if any, to reflect the correct balances of the accounts.***

- 5.5 Management informed the following:

- a. *On Foreign Relent Loans:* They submitted Reconciliation Statements explaining in detail the variance in the amount of P712, 209, 900.10
- b. *On Foreign Loans – Guaranteed:* Data were insufficient to warrant reconciliation.

- c. *On Domestic Loans*: The variance of P14,580,000 represents timing difference in the recording of payments.

6. The accuracy and reliability of the year-end balance of Loan Receivables – Water Districts were not ascertained due to the unreconciled discrepancies/variances totaling P109.58 million between the balance per books and balance per confirmation.

- 6.1 Comparison of the book balances of Loans Receivable – Water Districts against confirmed balances from 11 Water Districts (WDs) out of 38 WDs showed a net variance of P109,581,203 as detailed below:

**Table A1.6.1
List of Water Districts with
Variances Between LWA**

Name of Debtors	Per LWUA Books	Per Confirmation	Variance
Sorsogon Water District	55,713,393	55,370,548	342,845
Tanay (Eastern) Rizal Water District	67,350,757	67,350,821	(64)
Misamis Occidental Water District	224,334,210	142,906,277	81,427,933
Dinalupihan Water District	36,617,649	41,728,142	(5,110,493)
Dagupan City Water District	139,578,718	139,578,718	-
Baguio City Water District	188,737,760	188,181,573	556,187
Calamba Water District	104,723,193	104,088,017	635,176
Batangas City Water District	203,921,895	203,921,895	-
Davao City Water District	65,505,437	34,296,469	31,208,968
BayuganAgusan Del Sur Water District	89,250,264	89,244,153	6,111
Metro Kidapawan Water District	229,285,043	228,770,503	514,540
Total	1,405,018,319	1,295,437,116	109,581,203

- 6.2 Our audit disclosed the following:

- a. For Loan Account No. 4-2572 of Sorsogon Water District amounting to P202,588, these were all applied by LWUA on interest, while per amortization schedule, the total amount should be distributed to principal and interest amounting to P145,220 and P57,368 respectively. On the other hand, for Loan Account No. 9-0136, Debit Memo No. BCS202130006 issued by LWUA pertaining to adjustment for billed engineering and supervision cost with an aggregate amount of P285,192 was already deducted from the Sorsogon Water District's books.

- b. Tanay (Eastern) Rizal Water District records were based on the amount paid as per amortization schedule provided by LWUA, however, a discrepancy was still noted.
 - c. The discrepancy of P81,427,934 for Misamis Occidental Water District (MOWD) represents loan sharing between Oroquieta City Water District (OCWD) and MOWD due to the de-annexation of Oroquieta Waterworks System now OCWD from MOWD.
- 6.3 For the last eight Water Districts listed in the preceding page, the reasons for the non-reconciliation of accounts have yet to be identified.
- 6.4 **We recommended that the Management:**
 - a. **Exert efforts to reconcile and identify the causes of the discrepancies/variances noted; and**
 - b. **Effect the necessary adjusting journal entries in the books, if any, so that fair and reliable information is presented in the financial statements.**
- 6.5 Management informed that the Loans Department has already identified the variances and journal entries shall be prepared to effect the adjustments.
- 7. **Dividends due to National Government amounting to P1.13 billion under Dividend Payable remained unremitted as of year-end, contrary to Section 3 of RA 7656. Of this amount, only P300 million was remitted in January 2013 and March 2013.**
 - 7.1 Section 3 of Republic Act No. 7656 re: An Act requiring government-owned or controlled corporations to declare dividends under certain conditions to the National Government, and for other purposes provides that:

Sec. 3.Dividends. – 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. xxx. Provided, That such dividends accruing to the National Government shall be received by the National Treasury and recorded as income of the General Fund.
 - 7.2 Verification revealed that the LWUA had a dividend payable of P1.13 billion as of year-end which remained in the books since 2008.
 - 7.3 Note 16 of the LWUA Financial Statements for CY 2012 disclosed that 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 or – 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”*.

7.4 In a letter dated 05 January 2013 of the Department of Finance, the LWUA was advised to remit to the Bureau of Treasury the amount of P150,000,000 representing first payment out of the total dividend due to the National Government (NG) for 2010 and prior years totaling P1,130,820,000.

7.5 ***We recommended that Management comply with the provision of Section 3 of RA 7656 for the full remittance of dividends to the National Government.***

7.6 Management commented that payment of dividend in the amount of P150 million was made to the GOP pursuant to their agreement with the DOF pending the approval of their request for more liberal terms of payment and dividend rate reduction which were approved by the DOF in the previous years.

8. **Advances to Contractors, Advances to Consultants and Advances to Water Districts totaling P48.69 million for projects undertaken from 1984 to 2006 in the amounts of P38.89 million, P7.45 million and P2.35 million, respectively, remained unrecovered after the contracts had been rescinded or terminated.**

8.1 Advances to Contractors, Advances to Consultants and Advances to Water Districts showed ending balances of P38,888,310 P7,453,642 and P2,348,183, respectively.

8.2 Advances to Contractors account represents prepayments made to contractors for the mobilization of the government water supply projects. Section 4.3 of Annex E of the Revised Implementing Rules and Regulations of (RIRR) the Procurement Law (RA 9184) states that advance payments shall be repaid by the contractor by deducting fifteen (15%) from his periodic progress payments. Our audit disclosed that:

- a. No appropriate action had been taken to recover the 15% advances granted to Contractors after their contracts/projects were rescinded/terminated. Management could have recovered the amount from the surety bond posted by the contractors.
- b. As mentioned in the CY 2010 AAR, Management did not pursue the claims against the surety bonds of two contractors which decided not to continue with their projects after receiving the 15% cash advances. Also, claim for the surety bond posted by another contractor which documents related to this account was no longer available and have been lost.

On the other hand, 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. Its year-end balance of P7.45 million remained inactive/dormant ranging from seven to 18 years.

- 8.3 As regards *Advances to Water Districts* account, this pertains to the release of funds to the Water Districts for earthquake rehabilitation and to defray take over expenses. The amounts released shall be subject to liquidation as soon as the purpose for which it was given has been served. Its year-end balance of P2.35 million remained inactive/dormant for more than ten years.
- 8.4 The recoverability of the long outstanding unrecovered advances of P48,690,134 was doubtful because of inadequate/absence of monitoring of projects implementation and non-enforcement or reluctance of Management to file legal action to pursue the claims against the surety bond posted by the contractors. Section 104 of PD 1445 states that:

"XXXXXXXX The head of any agency or instrumentality of the national government or any government-or controlled corporation and any other self-governing board or commission of the government shall exercise the diligence of a good father of a family in supervising accountable officers under his control to prevent the incurrence of loss of government funds or property, otherwise he shall be jointly and solidarily liable with the person primarily accountable therefore. XXXXXXXX."

8.5 ***We recommended that Management:***

- a. ***Strictly implement the Procurement Law (RA 9184) and the provision of par. 10 (2) of the Contract entered into by and between the LWUA and the contractor;***
- b. ***Pursue appropriate legal action against the surety bond posted by the contractors;***
- c. ***Exert all efforts to collect from the contractors with long overdue cash advances;***
- d. ***Develop a system of monitoring rescinded/terminated contracts with the end view of determining the existence of unrecovered advance payment to deter the occurrence of long overdue balances from contractors;***
- e. ***Determine the officers and employees who were negligent in the discharge of their duties and responsibilities, particularly, the persons responsible for the loss of the documents cited under paragraph 8.1.a; and***
- f. ***Submit to the Audit Team the updated reports of action taken by the Legal Affairs Department on the status of the projects/accounts and cases filed against the surety bond posted by the contractors.***

- 8.6 Management informed that the Procurement Law (RA 9184) and the provision of par 10(2) of the contract entered into by and between LWUA and the contractor will be strictly implemented. As per Legal Department, demand letters were sent to the insurance companies/GSIS against surety bond posted by the

contractors. The cash advances to contractors will be charged against their final billing. However, to date, no billing from these contractors was received despite their follow-ups.

9. **Unbilled Loans and Accounts Receivable – Water Districts carried contractors’ accounts with negative balances amounting to P42.66 million, contrary to PGAS 4.**

9.1 The Philippine Government Accounting Standards (PGAS) 4- Receivables par. 4.6 states: *Negative receivable balances shall be classified as current liabilities and shall not be offset against the outstanding balance of individual customers.*

9.2 Examination of the schedule of *Unbilled Loans and Accounts Receivable–WDs* (ULAR) totaling P132,998,657 showed that the account included the following negative balances:

Name	Amount
a. Egapol Construction	P 510,900
b. Eagleheart Manufacturing Corp.	2,471,003
c. J. V. Angeles Const. Corp.	26,288,071
d. J. E. Manalo& Co., Inc.	7,355,629
f. Jurong Engineering Ltd.	204,105
g. New San Jose Builders, Inc.	5,830,032
Total	P 42,659,740

9.3 **We recommended that Management:**

- a. **Comply with the provision of Par. 4.6 of PGAS as regards the proper classification of negative receivable balances;**
- b. **Analyze Unbilled Loans and Accounts Receivable – Water District accounts to determine the correct balances of the contractors’ accounts; and**
- c. **Effect the necessary adjusting entries required by par. 4.6 of PGAS.**

9.4 Management commented that the detailed analysis of the ULAR account is on-going in order to establish the correct individual contractor’s subsidiary ledger balances and the same time eradicated the negative balances. Results of the on-going analysis will be submitted to the Audit Team.

10. **Five Water Supply and Sanitation Projects (WSSP) with fund releases to water districts amounting to P38.19 million in CYs 2009 and 2011 had not been implemented, in violation of Article III (1) of the Memorandum of Understanding (MOU) signed by and between the Water Districts and LWUA.**

- 10.1 Article III (1) of the Memorandum of Understanding (MOU) between the Water Districts and the Local Water Utilities Administration states the Water District's Obligations, to wit:

"To be responsible for the construction and commissioning of the Project in accordance with the approved Program of Work (POW) and adhere to the project implementation obligations... xxx"

- 10.2 The Project Status Report for the period ended December 31, 2012 showed zero accomplishment for the following Water Supply and Sanitation Projects within the 12-month period from receipt of the funds from LWUA.

**Table A1.10.1
Projects with No Accomplishment**

Contract	Total Fund Released (a)	Total Project Cost (b)	Release Date (c)	% of Fund Released To Total Project Cost (a / b)	% of Accomplishment	
					Should be per POW	Actual
Sogod, Leyte	5,075,000	10,000,000	Jan - 2011	50.75%	52.92%	0%
San Jose, N. Samar	4,686,760	15,520,000	Nov - 2009	30.19%	32.03%	0%
Buluan, Maguindanao	10,289,341	18,000,000	Oct - 2009	57.16%	49.03%	0%
Tugaya, Lanao del Sur	10,074,680	25,000,000	Jan - 2011	40.29%	45.17%	0%
Banguingui, Sulu	8,071,056	9,994,000	Mar - 2011	80.76%	87.17%	0%
Total	38,196,837					

However, as shown in the abovementioned table and as agreed in the Memorandum of Understanding (MOU), the percentage of accomplishment should have ranged from 32.03 to 87.17 %.

- 10.3 ***We recommended that Management:***

- a. ***Institute legal remedies to recover the funds released to the Water Districts which did not implement the water supply and sanitation projects; and***
- b. ***Adopt a regular inspection or monitoring program of the Project Status of the Water Supply and Sanitation Project to determine the progress of work of the concerned Water District.***

- 10.4 Management submitted the following comments:

- a. *Sugod WD* - The money was and still deposited at LBP, Sogod Branch under a LWUA/WD Joint Account. The contractor has started mobilizing in January 2013.

- b. *San Jose WD* - The money was and is still deposited at LBP, Catarman Branch under a LWUA/WD Joint Account. Three shallow wells have been drilled as of December 2012 and tests are still to be done to assure quantity and quality of supply before any pipe laying and other civil works have to be done.
- c. *Buluan WD* - LWUA received a letter-reply from LBP Tacurong Branch confirming the withdrawal of project funds by the Buluan WD. The LWUA check supposedly to be deposited under the LWUA/Buluan WD Joint Account was deposited to the account of Buluan WD. As per WD bank account snapshot, the remaining amount was P377,867, as of May 14, 2010. The funds were withdrawn before the May 2010 election.

On May 20, 2010, LWUA Action Officer had conducted an ocular inspection at the town proper of Buluan, but no construction activities for water supply project have been observed.

On April 11, 2011, LWUA sent another letter asking the LBP Tacurong Branch why they allowed the LBP Katipunan Check No. 392573 dated October 12, 2009 amounting to P10,283,341 be deposited under the Buluan WD account instead of LWUA/Buluan WD joint account as stated in the said check.

As of this date, April 25, 2013, no project documents received by LWUA from Buluan WD regarding the status of the project.

- d. *Tugaya WD* - While Area Operations fully recognized the need to conduct actual field verification to determine the actual status of the project, they were constrained by the current peace and order situation in the area.

Meanwhile, the accomplishment and liquidation documents have been forwarded to LWUA's Legal Department for review and comments.

- e. *Banguingui WD* - After the release of funds to Banguingui WD in March 2011, a letter was sent in July 2011, requesting the WD to initially submit project fact sheets which should include information on the contractor, bid documents, etc. and if any disbursement schedule/status and physical accomplishment, LWUA did not receive a reply from the WD.

Banguingui WD is an island east of Sulu mainland and appears inaccessible by public transport based on its geographical location.

10.5 Considering the comments of Management, we recommend the following:

- a. ***Sogod and San Jose WDs –***

Strictly monitor the Progress of Work to determine the accomplishments of the WDs since the funds were released in November 2011 and January 2011, respectively.

b. **Buluan WD -**

File the necessary legal remedies against the LBP-Tacurong Br. considering that it allowed the LBP-Katipunan Br. Check No. 392573 dated Oct. 12, 2009 to be deposited to the Buluan WD account, instead of the joint account of LWUA/Buluan WD as stated in the aforementioned check. In view thereof, the WD was able to withdraw the amount of P9,911,474 leaving a balance of P377,867 as of May 14, 2010 per bank account snapshot as stated in the Management comment.

c. **Tugaya and Banguingui WDs -**

Institute legal remedies to recover the funds released to the Water Districts which failed to implement the projects, and for future projects; conduct regular inspection or monitoring program of the project status of the Water Supply and Sanitation Project to determine the progress of work of the concerned Water District; and conduct appropriate evaluation as regards the viability of the project.

11. LWUA's contribution amounting to P32.45 million to the Officers and Employees' Provident Fund for CY 2012 representing government share was paid to the Provided Fund despite the provisions of Item 5.3.2 of Budget Circular No. 2008-3 that government monetary contribution cannot be given pending issuance of DBM guidelines.

11.1 On June 5, 1995, the Administration established their Provident Fund under Board Resolution No. 158 Series of 1995 pursuant to Section 31, Chapter 5, Title 1, Subtitle A, Book V of Executive Order 292 (Administrative Code of 1987), which mandates each department or agency to provide for employees' health, welfare, counseling, recreation and similar services.

11.2 Likewise, the establishment of the Fund was in pursuant to Opinion No. 077 of the Office of Government Corporate Counsel (OGCC) dated March 24, 1995, which states that "it is our considered opinion that Resolution No. 01-94 of the Infrastructure Utilities Group (IUG) of government-owned or controlled corporations is legally in order and will pave the way for LWUA to establish its Provident Fund to provide for the employees welfare/benefits. The purposes of LWUA's Provident Fund are the following:

- a. To provide benefits to such officers/employees and/or their beneficiaries and heirs;
- b. To address the financial concerns of officers and employees particularly in time of need such as emergency, funeral, burial, educational, calamity, medical and travelling expenses;

- c. To be a supplementary benefit and security against the hazards of employment/old age;
- d. To enable officers and employees cope with the current inflationary costs which, under present compensation levels, are unrealistically low particularly for lower level employees; and
- e. As a form of incentive to keep officers and employees in the organization.

11.3 Initially, the Administration contributed P2,000,000 in 1996 to support the operation of the Fund. The fund's sources of capital apart from the LWUA initial contribution and others were from the contributions of each member and LWUA's counterpart share as follows:

Year	Employer's	Employees' Share
1	6%	3%
2	8%	4%
3	10%	5%

11.4 In subsequent years, the Management recommended and the Board of Trustees approved the increase of employer and employee contributions to the Provident Fund as follows:

Employer's Share	Employees'	Resolution No.	Date
	6%		
12%			
14%		216 series of	Aug. 26,
16%		637 series of	Nov. 24,

11.5 Our review of the DBM-approved COB for CY 2012 revealed that one of the expenditure items considered to be of no legal basis pending issuance of the DBM guidelines is the Provident Fund.

11.6 Our audit of the account Provident Fund Benefits for the year ended December 31, 2012 disclosed that a total of P32,454,735 were disbursed representing LWUA's counterpart. Since CY 2010, the Administration continued to remit the government share to the Provident fund in spite of the disapproval of the DBM in their COB. Hence, the disbursements were unauthorized for lack of legal basis.

11.7 ***We recommended that Management stop the Administration's contribution to the Fund and secure a post-facto approval from the Office of the President or the DBM; otherwise, revert to the LWUA the share contributed for CYs 2010 - 2012.***

11.8 ***We will accordingly issue the Notice of Disallowance, should no post-facto approval been secured.***

11.9 Management justified that apart from the legal bases already cited in LWUA Board Res. No. 158, series of 1995, which is Sec 31, Chapter 5, the DBM in its Budget Circular No. 2008-3 dated June 20, 2008, issued the rules, regulations and procedure on the establishment and administration of Provident Funds in the Philippine- Government. Clearly, as the DBM Circular so states, the institutionalization of agency Provident Funds is one of the measures advocated by the Committee on the Protection of Income of Government Employees created under E.O. No. 462, dated September 19, 2005. It is likewise important to note that the same circular did not prohibit at all government Monetary contribution by the Agency. Hence, LWUA's (agency) employer's share to the Provident Fund has adequate and sufficient legal bases.

11.10 ***As a rejoinder, we invite attention to the DBM approved Corporate Operating Budget for CY 2012 which states that the Provident Fund has no legal basis and subject to the provisions of Item 5.3.2 of Budget Circular No. 2008-3 dated June 20, 2008 that government monetary contribution cannot be given pending issuance of DBM guidelines. Moreover, Item 5.3.2.2 of the aforementioned Budget Circular, states: xxx. For GOCCs, the government monetary contribution shall be subject further to an evaluation by the DBM of the financial position of each GOCC.***

12. **The amount of P376.23 million or 94% of the P400.00 million subsidy/grant received from the National Government in CY2009 for the projects of the Water Districts (WDs) was not utilized/released to the qualified WD ,thus defeating the purpose of the grant.**

12.1 Special Provision No. 8 of the General Appropriations Act of CY 2009 states: *“Subsidy for projects of the Local Water Utilities Administration. The amount appropriated for the Local Water Utilities Administration (LWUA) shall be used exclusively for projects of water districts xxx. PROVIDED, FINALLY, That unless otherwise provided in the terms and conditions of the grant, all grants and subsidies to water districts shall be actually transferred to the exclusive account of the water districts which shall implement the project, or bid the same to qualified contractors, or do the actual purchase of materials needed in the construction, repair or rehabilitation of their respective water project.”*

12.2 Verification of the transaction ledgers for CY 2009 to CY 2012 disclosed the following releases to the water districts:

Year	Water District	Amount
2009	Jaen(NE)WD	P 934,888
2011	Langiden WD JSA	2,710,000
	Cabarroguis – Quirino	1,438,050
	IlogWD,NegrosOcc	2,400,000

2012	Camalig WD	5,000,000
	Bacacay WD	5,000,000
	Calabanga WD	5,000,000
	Ilog,WD	1,288,820
Total		P 23,771,758

- 12.3 As shown in the above table, releases were made to eight Water Districts amounting to P23,771,758 or a mere 6% of the total grant of P400 million received by LWUA since CY2009 which defeated the purpose of the grant as mentioned in the Special Provision No. 8, GAA of CY2009.
- 12.4 Moreover, similar findings were reported in the Annual Audit Report for CY 2010 that the grant/subsidy should be released to the projects of the water districts to realize the purpose of the grant.
- 12.5 Shown in Table A.12.1 below are the 101 Water Districts with unreleased funds amounting to P 376.23 million under the P400 million Subsidy.

**Table A1.12.1
Breakdown of P 376.23 million unreleased Funds to WDs**

Water District		Allocation
Abuyog	Leyte	4,000,000.00
Agoo	La Union	4,000,000.00
Ailmodian	Iloilo	2,000,000.00
Angadanan	Isabela	4,000,000.00
Baao	Camarines Sur	4,000,000.00
Balaoan	La Union	4,000,000.00
Banate	Iloilo	4,000,000.00
Banga	South Cotabato	4,000,000.00
Bani	Pangasinan	4,000,000.00
Binalbagan	Negros Occidental	4,000,000.00
Bongabon	Nueva Ecija	4,000,000.00
Bugason	Antique	3,000,000.00
Del Gallego	Camarines Sur	4,000,000.00
Duenas	Iloilo	2,000,000.00
Hagonoy	Davao del Sur	4,000,000.00
Isabel	Leyte	4,000,000.00
Jaen	Nueva Ecija	3,065,112.00
Janiuay	Iloilo	3,000,000.00
Jordan	Guimaras	3,000,000.00
Kauswagan	Lanao del Norte	3,000,000.00
Kolambugan	Lanao del Norte	4,000,000.00
Lemery	Iloilo	2,000,000.00
Lobo	Batangas	4,000,000.00
Mag-ao	Iloilo	2,500,000.00
Matnog	Sorsogon	3,000,000.00

Merrida	Samar	3,000,000.00
Norala	South Cotabato	4,000,000.00
Norzagaray	Bulacan	4,000,000.00
Norzagaray	Camarines Sur	3,000,000.00
Numancia	Aklan	3,500,000.00
Pagsanjan	Laguna	4,000,000.00
Paracale	Camarines Sur	4,000,000.00
Pasacao	Camarines Sur	4,000,000.00
San Andres	Catanduanes	4,000,000.00
San Juan	Batangas	4,000,000.00
San Nicolas	Pangasinan	4,000,000.00
Siasi	Sulu	3,000,000.00
Siblayan	Occidental Mindoro	4,000,000.00
Silay	Negros Occidental	4,000,000.00
Tubungas	Iloilo	3,000,000.00
Tupi	South Cotabato	4,000,000.00
Zarraga	Iloilo	3,000,000.00
Agno	Pangasinan	7,700,000.00
Alicia	Isabela	6,000,000.00
Antipas	North Cotabato	3,000,000.00
Aroroy	Masbate	4,500,000.00
Banganga	Davao Oriental	3,000,000.00
Bani	Pangasinan	5,500,000.00
Basud	Camarines Norte	6,500,000.00
Batac	Ilocos Norte	5,000,000.00
Cabagan	Isabela	2,000,000.00
Calinog	Iloilo	3,000,000.00
Carmen	Davao del Norte	2,500,000.00
Castillejos	Zambales	2,000,000.00
Catanauan	Quezon	4,000,000.00
Dipaculao	Aurora	2,000,000.00
Diumarao	Capiz	5,000,000.00
Estancia	Iloilo	5,000,000.00
Glan	Sarangani	5,800,000.00
Gonzaga	Cagayan	2,200,000.00
Ilog	Negros Occidental	3,000,000.00
Jaro	Leyte	1,500,000.00
Kiblawan	Davao del Sur	5,000,000.00
La Castellana	Negros Occidental	5,000,000.00
La-lo	Cagayan	2,000,000.00
Laoang	Northern Samar	5,000,000.00
Lebak	Sultan Kudarat	5,000,000.00
Libacao	Aklan	1,300,000.00
Lopez	Quezon	6,000,000.00
Macalaeon	Quezon	1,500,000.00
Malay	Aklan	2,000,000.00
Malinao	Aklan	1,500,000.00

Mambusao	Capiz	3,000,000.00
Mobo	Masbate	5,000,000.00
Morong	Bataan	5,000,000.00
Pitogo	Quezon	5,000,000.00
Prosperidad	Agusan del Sur	5,000,000.00
Sablayan	Occidental Mindoro	3,500,000.00
Sanchez-Mira	Cagayan	2,000,000.00
Titay	Zambo Sibugay	3,000,000.00
Unisan	Quezon	5,000,000.00
Alegria	Surigao del Norte	3,000,000.00
Baler	Aurora	12,500,000.00
Basey	Western Samar	3,000,000.00
Burgos	Surigao del Norte	2,500,000.00
Cabarroguis	Quirino	11,061,950.00
Carmen	Surigao del Norte	3,000,000.00
Dalaguete	Cebu	4,000,000.00
Del Carmen	Surigao del Norte	2,500,000.00
Ilog	Negros Occidental	1,311,180.00
Isabel	Leyte	3,000,000.00
Kumalaran	Zambo del Sur	3,000,000.00
Lian	Batangas	5,000,000.00
Liloy	Zambo del Norte	3,000,000.00
New Corella	Davao del Norte	5,000,000.00
Pilar	Capiz	4,000,000.00
Pinamungajan	Cebu	3,000,000.00
Salug	Zambo del Norte	3,000,000.00
San Juan	Batangas	5,000,000.00
Santander	Cebu	3,000,000.00
Langiden	JSA	(2,710,000.00)
	101 WDs	376,228,242.00

12.6 ***We recommended that Management:***

- a. ***Comply with the provision of the Special Provision No. 8 of the GAA CY 2009; and***
- b. ***Make the necessary verification and evaluation of the grant to determine the reason of the unreleased balance.***

12.7 Management replied that they have complied with the first recommendation .In relation to the second recommendation, LWUA has identified the qualified Water Districts for this project. However, some WD opted not to avail since they have other loan window at lower charges while some expressed their desire to avail now.

12.8 As our rejoinder, we request submission of the pertinent documents showing compliance with the first recommendation.

13. **Meal Allowance and Hospitalization and Other Medical Benefits exceeded the maximum limit set per DBM-approved Corporate Operating Budget for CY 2012 and LOI No. 97 by P21.26 million and P9.26 million, respectively.**

13.1 An excess provision of meal subsidy and hospitalization and other medical benefits were noted by the DBM as indicated in the approved COB for CY 2012. The provision of the expense items were allowed only for P66/month and P2,500/year, respectively, for incumbent positions as of June 30, 1989 pursuant to LOI. No. 97.

13.2 Verification of the meal allowance and hospitalization and other medical benefits disclosed that LWUA made payments in excess of the maximum limit per approved COB, as shown below:

Particulars	Meal Allowance			Hospitalization and Medical Expense		
	Per DBM Approved COB	Actual Disbs.	Excess	Per DBM Approved COB	Actual Disbs	Excess
<i>Incumbent as of June 30, 1989</i>						
Meal allowance	280,174	17,274,730	16,994,556			
Hosp. and other medical benefits				1,115,000	8,381,600	7,266,600
<i>Not incumbent as of June 30, 1989</i>						
Meal allowance	-	4,266,000	4,266,000			
Hosp. and other medical benefits					1,992,000	1,992,000
Grand total	280,174	21,540,730	21,260,556	1,115,000	10,373,600	9,258,600

13.3 Management informed that they will seek post facto approval from DBM.

13.4 ***We recommend that Management:***

- a. ***Stop granting Meal Allowance and Hospitalization and Other Medical Benefits in excess of the maximum limit; and***
- b. ***Secure post facto approval from the Office of the President for the benefits received in CY 2012 and prior years.***

13.5 ***We will issue the necessary Notice of Disallowance for CY 2012 and prior years, should no approval be obtained from the OP.***

14. **Some LWUA officials received Extraordinary and Miscellaneous Expenses (EME) more than the amount allowed per General Appropriations Act for CY 2011 and 2012 and DBM-approved COB by P0.469 million and P0.248 million for CYs 2011 and 2012, respectively. Moreover, some LWUA officials whose positions were not among the authorized officials per GAA for CY 2011 and 2012 received EME totaling P1.329 million.**

14.1 Section 26 of GAA of CY 2011 and Section 23 of GAA of 2012 state that:

- a. Appropriations authorized may be utilized for extraordinary expenses of the following officials and those of equivalent rank as may be determined by DBM, not exceeding:

- P 220,000 for each Department Secretary;
- P90,000 for each Department Undersecretary;
- P50,000 for each Department Assistant Secretary;
- P38,000 for each Bureau or organization of equivalent rank;
- P22,000 for each head of Bureau Regional Office or organization of equivalent rank.

- b. In addition, miscellaneous expenses not exceeding P72,000 for each of the offices under the above named officials are authorized.

- c. For the purpose of these sections, extraordinary and miscellaneous expenses shall include, but not limited to expenses incurred for:

- Meetings, seminars and conferences;
- Official entertainment;
- Public relations;
- Educational, athletic and cultural activities;
- Contributions to civic or charitable institutions;
- Membership in government associations;
- Membership in national professional organizations duly accredited by the Professional Regulations Commission;
- Membership in the Integrated Bar of the Philippines;
- Subscription to professional technical journals and informative magazines, library books and materials;
- Office equipment and supplies; and
- Other similar expenses not supported by the regular budget allocation.

14.2 In line with the GAA for 2011 and 2012, and per DBM approved corporate budget, the EME and ME are pegged at P554,000 and P614,000, respectively, broken down as follows:

- a. *Extraordinary & Miscellaneous Expenses*

Position	Salary Grade	Salary	
		CY 2011	CY 2012
Administrator	30	90,000	90,000.00
Senior deputy Administrator	29	38,000	50,000.00
Deputy Administrator - Investment and Financial Services	26	22,000	38,000
Deputy Administrator – Administrative Services	26	22,000	38,000
Deputy Administrator – Area Operation	26	22,000	38,000
Sub-total		194,000	254,000

aneous Expenses

Position	Salary Grade	Salary	
		CY 2011	CY 2012
Administrator	30	72,000	72,000
Senior deputy Administrator	29	72,000	72,000
Deputy Administrator – Investment and Financial Services	26	72,000	72,000
Deputy administrator – Administrative Services	26	72,000	72,000
Deputy Administrator – Area Operation	26	72,000	72,000
Sub – total		360,000	360,000
Total		554,000	614,000

14.3 Our audit disclosed the following:

- a. There were officials who are entitled to avail of the EME and ME whose expenditures exceeded the amount authorized under the GAA of the years 2011 and 2012 totaling P717,000; and
- b. There were officials who avail of the EME and ME totaling P 1,328,869.00 but are not among the authorized officials under GAA of 2011 and 2012.

**Table A1.14.1
Officials whose availed EME & ME exceeded the
Amount authorized under the GAA**

POSITION	CY 2011		CY2012	
	EME	ME	EME	ME
Acting Administrator	33,651.01			
Acting Deputy Administrator for Administrative Services	71,120.00			
Acting Deputy Administrator for Area Operation	299,231.82		124,629.85	
Acting Administrator			123,080.32	
Dept. Manager A, LWRED, Areas 5 & 9 (Luzon) OSDA		65,278.96		

Totals	404,002.83	65,278.96	247,710.17
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Table A1.14.2
Officials who were not among the authorized
Officials to receive EME & ME under GAA provision

POSITION	CY 2011		CY 2012	
	EME	ME	EME	ME
Actg. Dept. Mgr. A, AO Mindanao Areas 7 & 9	160,979.61			
Dept. Mgr. A, AO-Luzon Areas 3 & 4	96,203.20			
Actg. Dept. Mgr. A, AO Visayas Areas 5 & 6	100,294.31			
Actg. Dept. Mgr. A, Treasury, IFS	81,356.99			
Dept. Mgr. A, Public Affairs/Property Mgt. Dept.	34,825.40			
Dept. Mgr. A, Office of the Corp. Legal Counsel, OAD	23,296.01			
Dept. Mgr. A, HRDD, HRMD, Administrative Services	37,650.04	8,113.00		11,788.00
Actg. Dept. Mgr. A, Treasury, IFS	77,783.69			7,097.00
Dept. Mgr. A, WDAD, IFS	71,759.72			
Actg. Dept. Mgr. A, WDDD, Mindanao Areas 7 & 9, OSD	64,787.64			
Manager, LWRE- Luzon	124,712.13			
Dept. Mgr. A, WRRTD. OSDA	37,199.47			
Actg. Dept. Mgr. A, Loans Adm. Dept., IFS	80,524.14			
Dept. Mgr. A, WDDD, Areas 4 - 6 (Bicol & Visayas)	59,480.56			
Actg. Dept. Mgr.A, AO- Visayas Areas 5 & 6 Corporate Board Secretary V	32,683.60	54,454.82		24,680.50
Dept. Mgr., ICO, OAD		2,443.00		90,984.21
Executive Assistant C		34,092.95		11,679.00
Totals	1,083,536.51	99,103.77		146,228.71

- 14.4 We requested an explanation/justification for the excessive availment of the EME and ME and for the availment of Officials who were not authorized under the GAA. Management submitted the following explanations:
- a. For CY 2012, disbursements for EME and ME were strictly in accordance with CY 2012 GAA. For CY 2011, LWUA BOT thru BD. Res. No. 97 Series of 2011 (annex "E") approved the reimbursable amount for Administrator down to Dept. Mgrs. Which was subsequently reduced by 30% per BOT 118 Series of 2011 (**Annex "F"**) and which also provides that EME should be within the DBM approved level in the CY2011 COB. However, the DBM approved CY 2011 COB was only received by LWUA on February 24, 2012, long after the concerned Officials have been reimbursed of their EME and ME.
 - b. Per BD. Res. No. 294, S. 1994 (**Annex "G"**), Dept. Mgr. A (SG 26) of a GOCC is equivalent in rank to a Bureau Director of a line agency thus approved the entitlement of the Dept. Mgrs. (DMs) to EME for the efficient discharge of their official functions and duties. For CY 2011, the BOT approved the EME of DMs, however for 2012, the grant was stopped although some 2011 EME claims were processed in 2012.

14.5 Pursuant to Section 3 of Board Resolution No. 118 series of 2011 dated August 16, 2011, which states: "WHEREAS, due to the cost-saving measures which the agency needs to implement, Management recommends the reduction of the EME allocation under the Board-approved CY 2011 Corporate Operating Budget, by thirty percent (30%), and provided, further, that the amount of the EME shall be within the DBM-approved level in the CY 2011 COB", Management should comply with the DBM approved COB. It was further observed that the majority of EME & ME expenses were incurred from September 2011 to December 2012 which was after the effectivity of Board Resolution No. 118.

14.6 As provided under Section 26 of GAA of CY 2011 and Section 23 of GAA of 2012 which state that appropriations authorized may be utilized for extraordinary expenses of the following officials and those of equivalent rank as may be determined by DBM, not exceeding P22,000 for each head of Bureau Regional Office or organization of equivalent rank.

Inquiry disclosed that LWUA did not have any DBM document showing the equivalent ranks of LWUA officials who are entitled to EME and ME. As stated in the above provisions of GAA, it is the DBM who has the authority to determine the equivalent ranks.

14.7 **We recommend that Management:**

- a. **Require the refund of the excess EME and ME immediately,**

- b. **Request the DBM to determine the equivalent rank of LWUA officials who are entitled to EME and ME ; and**
- c. **Henceforth, comply with the conditions set forth in the DBM approved COB.**

14.8 **We will accordingly issue the Notice of Disallowance if no immediate refund is made of the excess EME and ME.**

15. Cash Advances amounting to P6.69 million under Account Advances to Officers and Employees remained unliquidated as of December 31, 2012, contrary to the provisions of COA Circular No.97-002.

15.1 Section 4 of COA Circular No. 97-002 dated February 10, 1997 provides that:

- a. *No additional cash advances shall be allowed to any official and employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made; and*
- b. A cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served.

15.2 Verification of aging of Advances to Officers and Employees as of December 31,2012 showed the following:

Age	Amount
Less than 30 days	2,543,242
61-365 days	1,847,697
Over 1 year	2,295,499
	6,686,438

15.3 Moreover, it was observed that the reason for the accumulation of the unliquidated cash advances was the granting of additional cash advances to employees with previous cash advances in violation of the afore-mentioned provisions of COA Circular No. 97-002.

15.4 As of January 22, 2013, the cash advances granted for the month of December 2012 totaling P2,543,242 were already liquidated.

15.5 **We recommended that Management strictly comply with COA Circular No. 97-002, and closely monitor the unliquidated cash advances and initiate administrative action against the officials and employees with long outstanding unliquidated cash advances.**

15.6 Management commented that salaries of employees with long outstanding unliquidated cash advances were withheld in compliance with COA Circular 97-002 dated February 10, 1997

16. **Of the approved budget of P11.400 million for the Annual Gender and Development (GAD) Plans and Programs for CY 2012, only the amount of P162,560 or 1.43% was reported as utilized, due to austere measures and other operating priorities.**
- 16.1 The proposed budget for GAD for CY 2012 was P11,400,000 or 3.49% of the Maintenance & Other Operating Expenses (MOOE). The Gender and Development (GAD) Plan for CY 2012 was primarily to help promote wellness through prevention and care of diseases and other medical conditions and specifically to give the 570 LWUA employees a prompt medical attention and care for check-up, diagnosis and treatment.
- 16.2 In pursuance to the PCW-NEDA-DBM Joint Circular No. 2004-01 dated April 5, 2001, the GAD Plan and Budget was submitted to the Philippine Commission on Women (PCW) on September 14, 2012, with request for opinion as to whether the cost of health insurance premiums of employees can qualify under the Identified Gender Activity. The GAD Plan and Budget was not acceptable to the PCW stating that the proposed programs or projects will not address any specific gender gap or issue within the organization, rather it will benefit the general workforce of the agency, and so it should form part of its human resource development.
- 16.3 LWUA reported the following GAD accomplishments for which the amount of only P162,560 was reported as spent:
- a. Disaster Preparedness Seminar;
 - b. Gender Participatory Audit Seminar, and
 - c. Flower Arrangement Seminar/Workshop.
- 16.4 ***We recommended that Management, if the financial capacity of LWUA warrants, to increase the GAD budget in accordance to the GAA provision of at least 5% of the budget and to develop a GAD Plan and Budget in accordance with the programs, activities, projects to promote gender responsive governance, protect and fulfill women's human rights and provide women's economic empowerment per PCW, NEDA, DBM Joint Circular No. 2012 – 1.***
- 16.5 Management submitted the following comments:
- a. The LWUA GFP for Years 2013-2015, which shall continue the promotion of the GAD advocacy in LWUA, noted the following important items: 1. the deviation of the GFP's accomplishments from the Gen Dev Plan; 2. to increase the GAD Budget to at least 5% of the budget in accordance to the GAA provision, if the financial capacity of LWUA warrants; and 3. for the development of a plan that will adhere to gender principles, policies, functions, programs and projects.

- b. Management will seriously consider COA's issues, concerns and recommendations as guide as they undertake GAD budgeting, planning and program implementation within their term for Years 2013-2015. The deviation of the 2012's GFP's accomplishments, in particular, will remind them that their future projects and actions should be in line and responsive to the Gen Dev Plan.

17. Status of Audit Suspensions, Disallowances and Charges as of December 31, 2012

- 17.1 Based on the Notice of Disallowances issued, total audit disallowances found in the audit of various transactions of the LWUA, as of December 31, 2012, after the effectivity of the Rules and Regulations of Settlement of Accounts (RRSA) amounted to P1,136,945,755.77. Notice of Suspensions issued totaled P67,848,583.90. There was no Notice of Charge issued as of December 31, 2012. Details are shown in Table A1.17.1

Table A1.17.1
List of Notices of Disallowances/Suspensions
After the Effectivity of the Rules and Regulations of Settlement of Accounts
As of December 31, 2012

<i>Notice of Disallowance/Suspension</i>			<i>Amount Disallowed</i>	<i>Status</i>
<i>Date Issued</i>	<i>ND/NS No.</i>	<i>Expense Disallowed and Reasons for Disallowance</i>		
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	23,170,340.80	-do-
Oct. 14, 2010	09-001-CF- (10)	RATA for Board of Trustees – Only Per Diem are allowed for	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	-do-
Dec. 07, 2010	10-004-CF- (08)	EME 2008 Absence of Officials Receipts, only	20,411,947.05	For Decision of COA Commission Proper
Sept. 13, 2011	11-004-CF-(09)	EME 2009 Absence of Officials Receipts, only certifications	25,265,990.92	-do-
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	
Aug. 2011	11-002-ICG-(09)	ESBI - -do-	400,000,000.00	
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
Jan. 18, 2012	11-005-CF-(10)	EME – 2010 Absence of Official Receipts, only certifications	25,977,310.54	Pending Appeal with Cluster Director
Feb. 10, 2012	12-001-ICG-(10)	2004-001 (2002– 2010) No Legal Basis as confirmed by DBM	70,922,176.8 6	For Decision of Cluster Director

Feb. 10, 2012	12-002-ICG-(10)	Amelioration Allowance (AA) – 2010 No Legal Basis as confirmed by DBM	17,591,397.07	For Decision of Cluster Director
Jun 28, 2012	12-003-ICG-(10)	Grocery Allowance - 2010 No Legal Basis as confirmed by DBM	36,035,047.61	For Decision of Cluster Director
Jun 28, 2012	12-004-ICG-(10)	Year-End Financial Assistance – No Legal Basis as confirmed by DBM	35,786,881.70	For Decision of Cluster Director
Dec. 3, 2012	12-005-ICG-11	EME – 2011 Absence of Official Receipts, only certifications	7,902,948.86	Appeal period has not expired
Total NDs as of Dec. 31, 2012			1,136,945,755.77	
Oct. 26, 2011	NS-09-ICG-002-11	Economic Assistance No Legal Basis as confirmed by DBM	34,143,000.00	
Jun 5, 2012	NS-12-001-101-(10)	Contractor	33,705,583.90	
Total NS as of Dec 31, 2012			67,848,583.90	

17.2 From March 18, 2004 to July 22, 2009, prior to the effectivity of the RRSA, 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 Rules of Procedure, with details in A.17.2

Table A1.17.2
List of Notices of Disallowances/Suspensions
Before the Effectivity of the Rules and Regulations of Settlement of Accounts
As of December 31, 2012

<i>Notice of Disallowance/Suspension</i>	<i>Amount Disallowed</i>	<i>Status</i>
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<i>Date Issued</i>	<i>ND/NS No.</i>	<i>Expense Disallowed and Reasons for Disallowance</i>		
Mar. 18, 2004	2004-001 (2002)	Cost of Living Allowance and Amelioration Allowance No Legal Basis as confirmed by DBM	68,060,255	With Petition for Review
Jul. 11, 2005	2005-001	Cash Advance –	624,571	With CSC Decision
Jul. 19, 2006	2006-001	Cash Advance	129,240	With Deed of Undertaking
Jul. 21, 2009	09-001-CF-(06)	Extraordinary and Miscellaneous Expense – 2006 Absence of Official Receipts, only certifications	13,110,998	With Answer to the Appeal Memorandum
TOTAL NDs as of Dec. 31, 2012			81,925,064	

17.3 Moreover, there was a settlement of P574,036.26 for COA Order of Execution dated October 26, 2011 under ND No. 29-001-CF (06)-EME dated July 21, 2009 amounting to P13,110,998.26, leaving a balance of P12,536,962 as of December 31, 2012.

A.2 Reiteration of Audit Observations and Recommendations Contained in the Annual Audit Report for CY 2011.

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 A2.1.1 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 A2.1.1
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 A2.1.2 is the breakdown of the accounts and those lender which answered the confirmation requests.

**Table A2.1.2
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 A2.1.3
Loans Payable – Foreign
Computation of Variance Between Lender Records and LWUA Records**

Loan Account	Original urrency	Per LWUA Records		Results of Confirmation (In US\$ and Euro)	Difference (In US\$ and Euro)	Exchang 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 A2.1.4.

Table A2.1.4
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 A2.2.1
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 A2.3.1
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 Table Nos. A2.3.2, A2.3.3 and A2.3.4, with summary in A2.3.5.
- 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 A2.3.2.
 - 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 A2.3.3. 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 A2.3.4.

Table A2.3.2
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	
	Bangui 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 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	

Area	Water District	POW (in million of Php)	Released Total	Unreleased Balance	% of Physical Completion Dec 31, 2011
	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, Lanao del Sur	17.990	8.380	9.610	61
	Pikit WD, North Cotoabato	10.000	6.430	3.570	80
	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 A2.3.3**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 A2.3.4**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

Area	Water District	POW (in million of Php)	Released Total	Unreleased	% of Physical Completion Dec 31, 2011
	Sta. Lucia, Ilocos Sur	25.000	0.00	25.000	0
	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	Mabitac, 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
	Borongan 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

Area	Water District	POW (in million of Php)	Released Total	Unreleased	% of Physical Completion Dec 31, 2011
	Taft WD, Samar	11.790	0.00	11.790	0
	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 A2.3.5

Summary of POWs Partially Implemented and Not Implemented

(Taken from Table Nos A2.3.2, A2.3.3 and A2.3.4)

Particulars	No. of Water Districts	POW	Funds Released to Water Districts	Unreleased
A. Those with fund releases and partially implemented (Table A2.3.2)				
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 A2.3.3)				
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 A2.3.4)				
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 A2.3.2 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 A2.3.2, 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 A2.6.1
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

<i>Personal Services</i>	<i>DBM Approved Budget</i>	<i>Actual Expenses</i>	<i>Savings (Excess)</i>
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
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

Allowance/Benefit	Reasons Provided by the DBM
	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 A2.6.1). 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.

A2. 6.2
List of NDs Issued on Allowances and Benefits
For CYs 2009 to 2010

ND #	Allowance/Benefit	Amount of Disallowance
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 Allowanced 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 A2.7.1.

**Table A2.7.1
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 A2.7.2.

Table A2.7.2
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 liquidate 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 ₱2,103,203.86 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 A2.9.1 below:

Table A2.9.1
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>
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 A2.9.2
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
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- 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; and
- 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.

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

1. 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><i>Reiterated in Comments and Observations No. 1</i></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 style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Due GOCC-</td> <td style="width: 10%; text-align: center;">P</td> <td style="width: 30%; text-align: right;">0.169 B</td> </tr> <tr> <td>Due to BIR-</td> <td></td> <td style="text-align: right;">0.054</td> </tr> <tr> <td>Guaranty deposits payable-</td> <td></td> <td style="text-align: right; border-bottom: 1px solid black;">0.061</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">P</td> <td style="text-align: right;"><u>1.973B</u></td> </tr> </table>	Due GOCC-	P	0.169 B	Due to BIR-		0.054	Guaranty deposits payable-		0.061	Total	P	<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</p>	<p>Implemented</p>
Due GOCC-	P	0.169 B												
Due to BIR-		0.054												
Guaranty deposits payable-		0.061												
Total	P	<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>by WDs as reserve funds to 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>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</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</p>	<p>Implemented</p>

Audit Observations	Recommendations	Action Taken/Comments
discrepancy of P114.89 million between the General Ledger balance and the Trial Balance/Balance Sheet of the said two accounts.	Liabilities for Special Fund were arrived at considering the error in posting in the General Ledger.	
<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>	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.	Implemented
<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 and P2.3 million remained dormant for more that 10 years.</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.	Not implemented <i>Reiterated in Comments and Observations No. 8</i>
<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>	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.	Implemented
<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>	Reconcile the Accounting records with the Disbursing Officer's cash book so that the final accountability, if any, could be determined.	Implemented

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</p> <p>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 record 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 dividend remittances.</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
<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 with 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>16.LWUA risks losing its financial exposure of P58 million due to non-recoupment of advances paid to contractors & consultants on various projects which have been dormant for 5 to 20 years--</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>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><i>Reiterated in Comments and Observations No. 8</i></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 basis be discontinued. 	<p>Not implemented</p>

Audit Observations	Recommendations	Action Taken/Comments
	<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 and 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>	Implemented
<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>	Implemented
<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 89 of PD 1445 & COA Circular</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 salary or claims from Local Water</p>	<p>Implemented</p> <p><i>Reiterated in Comments and Observations No. 15</i></p>

Audit Observations	Recommendations	Action Taken/Comments
No. 97-992 dated 2.10.97.	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><i>Reiterated in Comments and Observations No. 16</i></p>

2. We are reiterating the implementation of the audit recommendations which have not been implemented fully or not at all, as follows:

Audit Observations	Recommendations
<p>1. 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>2. 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>3. 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>4. 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>5. 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 basis be discontinued. • 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.