



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

ANNUAL AUDIT REPORT

ON THE

POLOMOLOK WATER DISTRICT Polomolok, South Cotabato

FOR THE YEAR ENDED DECEMBER 31, 2013



Republic of the Philippines
COMMISSION ON AUDIT
OFFICE OF THE REGIONAL DIRECTOR
Regional Office XII
Cotabato City

Telephone No. (064) 421-1973, Telefax No. (064) 421-1701

June 3, 2014

Engr. SOLITO T. TORCUATOR
General Manager
Polomolok Water District
Polomolok, South Cotabato



Sir:

We are pleased to transmit the Annual Audit Report on the audit of the accounts and operations of the Polomolok Water District, Polomolok, South Cotabato for the year ended December 31, 2013, in compliance with Article IX-D of the Philippine Constitution and pertinent provisions of Section 43 of Presidential Decree No. 1445.

The audit was made to ascertain the propriety of financial transactions, compliance of the agency with laws, rules and regulations and the fairness of presentation of the financial statements. Furthermore, the audit was conducted in accordance with Philippine Public Sector Standards on Auditing. We believe that our audit provides a reasonable basis for our opinion.

The report consists of the Independent Auditor's Report, the audited Financial Statements, the Observations and Recommendations, the Status of Implementation of Prior Year's Audit Recommendations and the Annexes. The audit observations and recommendations were discussed with concerned management officials and staff, whose comments are incorporated in the report, where appropriate.

Some of the significant audit findings and recommendations are summarized below; to wit:

1. The uncertainty in the collection of long overdue receivables from concessionaires amounting to P14,159,681.27 ranging from 1 year to more than one year misrepresented the real valuation of agency's current asset as of yearend.

We recommended and management agreed to (a) intensify the collections of these accounts; (b) set-up a record of individual accounts receivable wherein which

recovery or collectability is no longer probable and (c) for accounts whose collectability is already nil, request for write-off to the Commission on Audit as per Section 19 of the Rules and Regulations of Settlement of Accounts and Rule VI, Section 4 of the 2009 Revised Rules of Procedures of the COA, as amended by COA Resolution No. 2012-001 dated March 22, 2012.

2. Management's assertion on ownership for three (3) Pump Stations and Reservoir cannot be established due to the absence of a Torrens Title drawn in its favor over the land where these stations were constructed which is not in accordance with Section 49, Article 11 of the GAAM and may result to risk of losses on the part of the government. Moreover, the recording of these land overstated the Property, Plant and Equipment (Land) account by P410,031.78.

We recommended and management agreed to give preferential attention on the titling of lands and secure other documents evidencing its ownership to prevent possible losses of government property. Exert extra effort to secure the needed documents required to facilitate transfer of ownership

3. The Polomolok Water District contributed and remitted an excess HDMF (Pag-IBIG) premium contributions of employer's share totaling P240,739.16 representing the 2% of the January 2 to December 31, 2013 contrary to Section 7 of Republic Act No. 9679 Home Development Fund Law of 2009.

We recommended and management agreed to strictly follow the maximum ceiling of Five Thousand Pesos (5,000.00) monthly to be used in the computation of employer share as provided under Section 7 of RA 9679, otherwise known as the HDMF Fund Law of 2009, unless amended.

4. The FYI 2013 Budget of the agency was not in accordance with DBM Corporate Budget Memorandum No. 33 dated December 29, 2011 and without due consideration to PDP, FYs 2011-2016 which resulted to a weak linkage between development planning & budgeting as indicated by the absence of (a) data and report statistics against performance targets; (b) efficient and value for money in spending its resources to fulfill the President's Social Contract and focus on the 5 Key Results Areas (KRA) as laid out in Executive Order (E.O.) No. 43, s.2011; (c) Programs/Activities/Projects (PAPs) with corresponding budget estimates to align with their Major Final Outputs (MFOs).

We recommend and management agreed to prepare its FY 2014 Budget on the basis of DBM CBC No. 34 dated December 28, 2012 or the policy guidelines & procedures in the preparation and submission of the FY 2014 Budget Proposals to strengthen the linkage between development planning and budgeting and for the COA to be able to monitor and evaluate the accuracy of agency's reported performance against its approved targets with due consideration to the efficient

implementation of PAPs that are aligned with MFOs, KRAs and sector outcomes in the PDP Results matrices.

We request that the observations and recommendations contained in the report be fully addressed, and we would appreciate being informed of the actions taken in this regard within thirty (30) days from receipt hereof using the attached Agency Action Plan and Status of Implementation (AAPSI) Form.

We acknowledge the cooperation extended to our Auditors by the officials and employees of the agency.

Very truly yours,

By Authority of the Chairperson


ATTY. SUSAN P. DONALVO
Director IV *de*
Regional Director

Copy Furnished:

1. **The Board of Directors**
Polomolok Water District
Polomolok, South Cotabato
2. **The Vice-President**
7th Floor, PNB Financial Center
Pres. Diosdado Macapagal Boulevard
Pasay City 1300
3. **The Senate President**
GSIS Bldg., Financial Center
Roxas Boulevard, Pasay City
4. **The Chairman**
Senate Finance Committee
GSIS Bldg., Financial Center
Roxas Boulevard, Pasay City



5. **The Speaker of the House**
House of Representatives
Quezon City 1126

- 6 **The Administrator**
Local Water Utilities Administration
MWSS-LWUA Complex
Katipunan Ave., Balara, Quezon City

- 7 **The Director**
National Library of the Philippines,
T.M. Kalaw St., Ermita, Manila,
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- 8 **The UP Law Center**
Bocobo Hall, UP Law Complex
University of the Philippines Diliman,
Quezon City, Philippines

[Name of the Agency and Address]

**AGENCY ACTION PLAN and
STATUS of IMPLEMENTATION**
Audit Observations and Recommendations
For the Calendar Year 20XX
As of _____



Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/Delay/ Non-Implementation, if applicable	Action Taken/ Action to be Taken
			Action Plan	Person/Dept. Responsible	Target Implementation Date				
					From	To			

Agency sign-off: _____

Name and Position of Agency Officer _____ Date _____

Note: Status of Implementation may either be (a) Fully Implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed



Republic of the Philippines
COMMISSION ON AUDIT
Water Districts Audit Group - Team 6
Polomolok Water District
Polomolok, Province of South Cotabato
e-mail Address carmentalob@yahoo.com

April 15, 2014

The Regional Director
Commission on Audit
Regional Office No. XII
Cotabato City

Through: The Supervising Auditor
Water Districts Audit Group

Madam:

In compliance with Section 2, Article IX-D of the Constitution of the Philippines and Section 43 of the Government Auditing Code of the Philippines (PD 1445), we conducted a financial and compliance audit on the Polomolok Water District, Polomolok, South Cotabato for the year ended December 31, 2013.

We conducted the audit to determine the fairness of presentation of the financial statements and the propriety of financial transactions.

The attached report consists of the Audited Financial Statements, Observations and Recommendations, which were discussed with management officials and staff during the exit conference conducted last April 15, 2014, and the Status of Implementation of Prior Years' Audit Recommendations.


The uncertainty in the collection of long overdue receivables from concessionaires amounting to P14.1M ranging from 1 year to more than one year misrepresented the real valuation of agency's current assets as of yearend; and the recording of the land on which the three (3) pumping stations are located, ownership of which cannot be established due to the absence of proof of ownership, overstated the account by P0.4M.

Except for the effects of the matters discussed in the preceding paragraph, there is reason to believe that the financial statements are free of material misstatement/s and were prepared in accordance with applicable laws, rules and regulations and in conformity with generally accepted state accounting system and principles.

We conducted the audit in accordance with generally accepted state auditing standards and we believe that it provides reasonable basis for the results of audit.

We acknowledge the assistance/cooperation extended by the agency to the audit team thereby facilitating the prompt submission of this report.

Very truly yours,


CARMENCITA EDEN C. TALOB
State Auditor IV
Audit Team Leader

EXECUTIVE SUMMARY

Introduction

The Polomolok Water District was established through Sangguniang Bayan Resolution No. 63 dated October 9, 1980 of the Sangguniang Bayan of the Municipality of Polomolok, Province of South Cotabato with Presidential Decree No. 198, as amended, as the enabling law to the creation of the water districts. On June 9, 1981, the District was issued the Conditional Certificate of Conformance by the Local Water Utilities Administration (LWUA).

The mandates of the District are:

- a) To acquire, install, improve maintain and operate water supply and distribution systems for domestic, industrial, municipal and agricultural uses for residents and lands within the boundaries of the district;
- b) To provide, maintain and operate waste water collection treatment and disposal facilities; and
- c) To conduct such other functions and operations incidental to water resource development, utilization and disposal within the district, as are necessary or incidental to said purpose.

Financial Highlights

	<u>2013</u>	<u>2012</u>
Assets	₱ 140,933,377.25	₱ 130,756,659.03
Liabilities	76,745,004.45	80,552,277.61
Government Equity	64,188,372.80	50,204,381.42

Sources and Application of Funds

	<u>2013</u>	<u>2012</u>
Cash Inflows from Operating Activities	79,188,239.90	72,343,459.92
Cash Outflows from Operating Activities	<u>52,018,451.37</u>	<u>46,613,157.46</u>
Cash Provided by Operating Activities	<u>27,169,788.53</u>	<u>25,730,302.46</u>
Cash Inflows from Investing Activities	186,603.26	194,367.13
Cash Outflows from Investing Activities	<u>5,412,177.52</u>	<u>12,505,703.58</u>
Cash Provided by Investing Activities	<u>(5,225,574.26)</u>	<u>(12,311,336.45)</u>
Cash Inflows From Financing Activities	0.00	0.00
Cash Outflows From Financing Activities	<u>3,347,748.08</u>	<u>14,538,186.00</u>
Cash Provided by Financing Activities	<u>(13,347,748.08)</u>	<u>(14,538,186.00)</u>
Total Cash Provided by Operating, Investing and Financing Activities	8,596,466.19	(1,119,219.99)
Add: Cash Balance, January 1	<u>10,408,189.83</u>	<u>11,527,409.82</u>
Cash Balance End, December 31	<u>19,004,656.02</u>	<u>10,408,189.83</u>

Scope of Audit

A financial and compliance audit was conducted on the accounts and operations of the Polomolok Water District for the year 2013. The audit consisted of verification, reconciliation, analysis of accounts, inspections and such other procedures considered necessary. The audit was aimed at ascertaining the propriety of disbursements, the reliability of financial reports and agency's compliance with government accounting and auditing rules and regulations.

Auditor's Report

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements due to the uncertainty in the collection of long overdue receivables from concessionaires amounting to P14.1M ranging from 1 year to more than one year which misrepresented the real valuation of agency's current assets as of yearend; and the overstatement of the land account by P0.4M due to the absence of proof of ownership.

Observations and Recommendations

1. The FY 2013 Budget of the agency was not in accordance with DBM Corporate Budget Memo N0. 33 dated Dec. 29, 2011 and without due consideration to PDP, Fys 2011-2016 which resulted to a weak linkage between development planning & budgeting as indicated by the absence of (a) data and report statistics against performance targets; b) efficient and value for money in spending its resources to fulfill the President's Social Contract and focus on the 5 Key Results Areas (KRAs) as laid out in Executive Order (E.O.) No.43, s.2011; (c) Programs/Activities/Projects (PAPs) with corresponding budget estimates to align with their Major Final Outputs (MFOs).

We recommended and management agreed to prepare its FY 2014 Budget on the basis of DBM CBC No. 34 dated Dec. 28, 2012 or the Policy guidelines & procedures in the preparation and submission of the FY 2014 Budget Proposals to strengthen the linkage between development planning and budgeting and for the COA to be able to monitor and evaluate the accuracy of agency's reported performance against its approved targets with due consideration to the efficient implementation of PAPs that are aligned with MFOs, KRAs and sector outcomes in the PDP Results matrices.

2. Management's assertion on ownership for three (3) Pump stations and Reservoir cannot be established due to the absence of a Torrens Title drawn in its favor over the land where these stations were constructed which is not in accordance with Sec. 49 Article 11 of the GAAM and may result to risk of losses on the part of the government. Moreover, recording of these lands overstated the Property, Plant and Equipment (Land) account by P410,031.78.

We recommended and management agreed to give preferential attention on the titling of lands and secure other documents evidencing its ownership to prevent possible losses of government property. Also, exert extra effort to secure the needed documents required to facilitate transfer of ownership.

3. The Polomolok Water District contributed and remitted an excess HDMF (Pag-IBIG) premium contributions of employer's share totaling P240,739.16 representing the 2% of the employees' salary for the period January 2 to December 31, 2013 contrary to Section 7 of Republic Act No. 9679 Home Development Fund Law of 2009.

We recommended and they agreed that the General Manager should instruct those in charge of the payroll preparation and those in charge for the computation of mandatory deductions to properly compute the Pag-IBIG premiums at P100.00 for employer's share per employee.

We recommended to strictly follow the maximum ceiling of Five Thousand Pesos (P5,000.00) monthly to be used in the computation of employer share as

provided under Section 7 of RA 9679, otherwise known as the IIDMF Fund Law of 2009, unless amended.

4. The uncertainty in the collection of long overdue receivables from concessionaires amounting to P14,159,681.27 ranging from 1 year to more than one year misrepresented the real valuation of agency's current assets as of yearend.

We recommended and management agreed to (a) intensify the collections of these accounts; (b) set-up a record of individual accounts receivable wherein which recovery or collectability is no longer probable and (c) for accounts whose collectability is already nil, request for write-off to the Commission On Audit as per Section 19 of the Rules and Regulations of Settlement of Accounts and Rule VI, Section 4 of the 2009 Revised Rules of Procedures of the COA, as amended by COA Resolution No. 2012-001 dated March 22, 2012.

5. Lapses in adopting sound internal control procedures and practices in the management of inventories established opportunities for losses of government property due to the agency's failure to establish adequate storeroom facilities and set-up clearly defined policies on segregation of duties handling its inventories.

We recommended and management agreed to install a sound internal control system on the management of its inventories to eliminate material misstatements of accounting information, ensure appropriate segregation of duties and adequate provisions for safeguarding assets.

6. The format of E-OR issued by management thru computerized system on Billing & collection does not conform with the minimum data content as required under COA Circular No. 2013-076 dated September 18, 2013 or the Guidelines for the use of E-ORs to acknowledge collection of income and other receipts of government.

We recommended and management agreed to comply with the requirements set forth in Paragraph 3 of COA Circular No. 2013-076 dated September 18, 2013.

Staus of Suspensions, Disallowances and Charges

As of December 31, 2013, the disallowance amounted to ₱ 3,845,075.30 and still unrecorded in the books pending decision on its Petition for Certiorari.

The said amount was per COA Decision No. 2012-222 dated November 26, 2012 affirming the disallowances but said total amount is "*subject to*

review/finalization by COA Regional Office No.XII due to the aggregate disallowed amount of P3,845,075.30 indicated in the appealed COA Region XII Decision No. 09-05 differs from the combined amount of P1,701,410.96 of the four NDs, or a difference of P2,143,664.34. Review of the records of the case showed that the amount of P3,845,075.30 was sourced from the three Audit Observation Memoranda and the Audit Query issued by the ATL of PWD and the then RCD, then Cluster III-Public Utilities, CGS, COA ROXII”.

No Notices of Disallowance, Suspension nor Charges were issued for CY 2013.

Implementation of Gender and Development (GAD)

Actual GAD budget is P500,000.00 or .73% of the required 5% of agency's total appropriations, while expenditures totaled P80,244.93 or equivalent to 16% of the total GAD budget since management prioritized implementation of projects on repair, maintenance and expansion of its water facilities.

Compliance with Tax Laws and Regulations

The District withholds and remits applicable taxes imposed under the National Internal Revenue Code. Total tax remittances for the year was P3,768,818.87.

Implementation of Prior Years' Audit Recommendations

Of the twelve (12) audit recommendations embodied in the 2012 annual audit report, eight (8) were fully implemented, and four (4) still on going implementation.

Prior to the 2012 annual audit report, the three (3) remaining audit recommendations were fully implemented.

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Republic of the Philippines
COMMISSION ON AUDIT
OFFICE OF THE SUPERVISING AUDITOR

Water Districts Audit Group
Regional Office XII, Cotabato City

☎ Telefax (064) 421-6177 ✉ marycatherine_factora@yahoo.com

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Polomolok Water District
Polomolok, South Cotabato

We have audited the accompanying financial statements of Polomolok Water District as at December 31, 2013, which comprise the balance sheet, statement of income and expenses, statement of cash flows, and statement of changes in equity 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, 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 Public Sector 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 risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion


The uncertainty in the collection of long overdue receivables from concessionaires amounting to P14.1M ranging from 1 year to more than one year misrepresented the real valuation of agency's current assets as of yearend; and the recording of the land on which the three (3) pumping stations are located, ownership of which cannot be established due to the absence of proof of ownership, overstated the account by P0.4M.

Auditor's Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Polomolok Water District as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with state accounting principles.

COMMISSION ON AUDIT

By:


Mary Catherine R. Factora
State Auditor V
Supervising Auditor


April 11, 2014

Republic of the Philippines
POLOMOLOK WATER DISTRICT (PWD)
National Highway, Polomolok, South Cotabato

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL
STATEMENTS**

The Management of Polomolok Water District is responsible for all information and representations contained in the financial statements for the year ended December 31, 2013. The financial statements have been prepared in conformity with applicable laws and regulations and generally accepted accounting principles applied on a consistent basis and reflect amounts that are based on the best estimates and informed judgment of management with appropriate consideration for materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that the transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.


MARLENE C. CAGATA
Division Manager – Finance


ENGR. SOLITO T. TORCUATOR
General Manager



POLOMOLOK WATER DISTRICT
BALANCE SHEET
 As of December 31, 2013
 (With Comparative Figures for CY 2012)

	December 31	
	2013	2012
ASSETS		
Current Assets		
Cash (Note 3)	19,004,656.02	10,408,189.83
Receivables (Net-Note 4)	18,579,364.05	19,437,359.79
Inventories (Note 5)	3,352,437.56	3,425,665.64
Prepayments (Note 6)	500,669.43	380,852.64
Other Current Assets (Note 7)	227,565.16	227,565.16
	P 41,664,692.22	P 33,879,633.06
NON-CURRENT ASSETS (Note 8)		
Property and Equipment (Net of Depn)	18,600,242.83	19,662,497.37
Public Infrastructure (Net of Depn)	77,316,079.44	75,674,729.46
Reforestation (Net of Depn)	71,145.00	71,145.00
Construction in Progress	2,081,631.39	-
Other Assets (Net of Depn)	1,199,586.37	1,468,654.14
	99,268,685.03	96,877,025.97
TOTAL ASSETS	P 140,933,377.25	P 130,756,659.03
LIABILITIES AND EQUITY		
Current Liabilities (Note 9)		
Payable Accounts	11,488,534.77	9,006,500.82
Inter Agency Payable		
Other Current Liability Accounts		
	11,488,534.77	9,006,500.82
Long-term Liabilities		
Loans Payable - Domestic (Note 10)	65,256,469.68	71,545,776.79
	65,256,469.68	71,545,776.79
EQUITY		
Government Equity (Note 11)	50,204,381.42	41,977,707.86
Retained Earnings (Note 12)	13,983,991.38	8,226,673.56
	64,188,372.80	50,204,381.42
TOTAL LIABILITIES AND EQUITY	P 140,933,377.25	P 130,756,659.03

See Accompanying Notes to Financial Statements



POLOMOLOK WATER DISTRICT
STATEMENT OF INCOME AND EXPENSES
 For the Year Ended December 31, 2013
 (With Comparative Figures for CY 2012)

	December 31	
	2013	2012
Income (Note 13)		
Inspection Fees	P 113,300.00 ✓	P 89,650.00
Other Service Income	1,315,349.00 ✓	1,093,475.10
Income from Waterworks System	71,552,194.27 ✓	64,781,595.45
Fines and Penalties - Business Income	2,133,295.01 ✓	2,047,682.80
Miscellaneous Income	264,753.74 ✓	265,829.54
	75,378,892.02	68,278,232.89
Operating Expenses		
Personal Services		
Salaries and Wages	16,818,312.18 ✓	16,174,249.40
Other Compensation (Note 14)	7,430,959.80 ✓	7,443,116.86
Personnel Benefits and Contributions (Note 15)	2,605,699.11 ✓	2,477,924.09
Other Personnel Benefits (Note 16)	3,722,201.87 ✓	2,993,429.99
	30,577,172.96	29,088,720.34
Maintenance and Other Operating Expenses		
Traveling Expenses	659,754.71	546,886.68
Training Expenses	778,138.15	300,137.00
Supplies and Material Expenses (Note 17)	2,386,758.15 ✓	2,111,656.35
Utility Expenses	6,375,094.98 ✓	5,093,943.18 ✓
Communication Expenses (Note 18)	313,530.02 ✓	336,099.13
Membership Dues	28,232.00	57,829.25
Awards and Indemnities	1,500.00	-
Advertising Expenses	161,683.75	122,396.60
Printing and Binding Expenses	247,053.00	265,649.00
Rent Expenses	53,913.88 ✓	53,030.93
Representation Expenses	256,826.35	519,645.96
Subscription Expenses	12,685.00	13,479.00
Professional Services (Note 19)	1,069,723.74	1,167,428.08
Repair and Maintenance (Note 20)	2,785,766.79 ✓	2,113,496.37
Subsidies and Donations	80,940.94	38,045.49
Extraordinary and Miscellaneous Expenses	16,758.00	37,056.00
Taxes, Insurance Premiums and Other Fees	1,678,786.53 ✓	1,393,442.35
Non-Cash Expenses (Note 21)	6,829,057.18 ✓	6,811,125.76
GAD & Discounts on Sr. Citizen & Amnesty Programs	422,909.34 ✓	813,147.60
Bad Debts Expenses		596,240.11
	24,159,112.51	22,390,734.84
Total Operating Expenses	54,736,285.47	51,479,455.18
Income from Operations	20,642,606.55	16,798,777.71
Other Income and Expenses		
Interest Income	184,678.82 ✓	194,367.13
Financial Expenses (Note 22)	(7,058,440.97) ✓	(7,857,590.74)
Net Income	13,768,844.40	9,135,554.10

See Accompanying Notes to Financial Statements



POLOMOLOK WATER DISTRICT
STATEMENT OF CASH FLOWS
 For the Year Ended December 31, 2013
 (With Comparative Figures for CY 2012)

	DECEMBER 31	
	2013	2012
Cash Flow from Operating Activities		
Cash Inflows		
Service Income	P 74,468,378.25	P 67,616,484.53
Business Income	2,853,712.20	2,230,606.18
Permits and Licenses		
Other Income		
Other Receipts	1,866,149.45	2,496,369.21
Total Cash Inflows	P 79,188,239.90	P 72,343,459.92
Cash Outflows		
Personal Services	26,317,037.28	27,554,509.60
Maintenance and Other Operating Expenses	10,481,374.82	14,983,368.97
Purchase of Inventories	3,830,845.55	
Prepayments, Deposits and Deferred Charges	567,436.38	
Other Disbursements	10,821,757.34	4,075,278.89
Total Cash Outflows	52,018,451.37	46,613,157.46
Net Cash from Operating Activities	P 27,169,788.53	P 25,730,302.46
Cash Flows from Investing Activities		
Cash Inflows		
Sale of Property, Plant and Equipment		
Sale of Investments		
Interest and Dividends	186,603.26	194,367.13
Total Cash Inflows	P 186,603.26	P 194,367.13
Cash Outflows		
Investments		
Purchase/Acquisition of Property, Plant and Equipment	5,412,177.52	12,505,703.58
Grant of Loans		
Total Cash Outflows	5,412,177.52	12,505,703.58
Net Cash from Investing Activities	P (5,225,574.26)	P (12,311,336.45)
Cash Flow from Financing Activities		
Cash Inflows		
Acquisition of Loan		
Others		
Total Cash Inflows	-	-
Cash Outflows		
Loan Amortization	7,175,686.04	6,680,595.26
Financial Expenses	5,833,022.10	7,857,590.74
Others	339,039.94	
Total Cash Outflows	P 13,347,748.08	P 14,538,186.00
Net Cash from Financing and Cash Activities	(13,347,748.08)	(14,538,186.00)
Net Increase in Cash Equivalents for the Period	8,596,466.19	(1,119,219.99)
Cash and Cash Equivalents at Beginning of Period	10,408,189.83	11,527,409.82
Cash and Cash Equivalents at End of Period	P 19,004,656.02	P 10,408,189.83



POLOMOLOK WATER DISTRICT
STATEMENT OF CHANGES IN EQUITY
 As of December 31, 2013
 (With Comparative Figures for CY 2012)

	December 31	
	2013	2012
GOVERNMENT EQUITY		
Balance beginning of period	P 50,204,381.42	P 41,977,707.86
RETAINED EARNINGS		
Prior Period Adjustments	215,146.98	(1,077,380.54)
Changes during the period	-	168,500.00
Net Income (Loss) for the period	<u>13,768,844.40</u>	<u>9,135,554.10</u>
Balance at the end of the period	P <u>13,983,991.38</u>	P <u>8,226,673.56</u>
TOTAL EQUITY >>>	P <u>64,188,372.80</u>	P <u>50,204,381.42</u>

Notes to Consolidated Financial Statements

(With Comparative Figures for CY 2012)

1. AGENCY PROFILE

1.1 The Polomolok Water District (PWD) was established thru Sanguniang Bayan Resolution No. 63 dated October 9, 1980 of the Sanguniang Bayan of the Municipality of Polomolok, province of South Cotabato with Presidential Decree No. 198, as amended, as the enabling law to the creation of water district. On June 9, 1981, the District was issued the Conditional Certificate of Conformance (CCC No. 153) by the Local Water Utilities Administration (LWUA). The Mandates of the District are:

- To acquire, install, improve, maintain and operate water supply and distribution system for domestic, industrial, municipal and agricultural uses for residents and lands within the boundaries of the district;
- To provide, maintain and operate waste water collection treatment and disposal facilities; and
- To conduct such other functions and operations incidental to water resource development, utilization and disposal within the district, as are necessary or incidental to said purpose.

1.2 All monies belonging to the District were deposited to the authorized depository bank. The income of the district were disposed of according to the following priorities:

- First, to pay its contractual and statutory obligation and to meet its essential current operating expenses.
- Second, to allocate at least fifty percent (50%) of the balance exclusively as a reserve for debt service and operating and maintenance, to be used for such purposes only during period of calamities, force majeure or unforeseen events.
- Third, to allocate the residual as a reserve exclusively for expansion and improvement of its physical facilities.

1.3 The powers, privileges and duties of the District are exercised and performed by and through the Board of Directors, as the policy-making body composed of the following:

Chairman	-	Engr. Andresito J. Degilla
Vice Chairman	-	Engr. Alex C. Macabacyao

- Members
- Erlinda H. Desullan
 - Ismael G. Verardo, Sr.
 - Algenib T. Aguirre, CPA

1.3.1 The Board of Trustees is authorized to appropriate out of any funds of the District, such amounts as it may deem necessary for the operational and other expenses of the District including the purchase of necessary equipment.

1.3.2 The Local Water Utilities Administration (LWUA) extends project-related assistance to the District in the form of loan assistance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 The financial statements have been prepared with the generally accepted accounting principles and standards and reflect amount that are based on best estimates and informed judgment of management with an appropriate consideration of materiality.

2.1.2 The District uses the chart of accounts under the New Government Accounting System in recording its transactions.

2.2 Accounting Policies

2.2.1 The District uses the accrual basis of accounting. Revenues are recorded during the period in which the services are given/rendered and expenses are recorded at the times there are incurred.

2.2.2 Receivables on trade are recorded at net realizable value. An allowance for doubtful account is set-up to provide for estimated loss due to non-collection of accounts from customers on past experiences.

2.2.3 Supplies purchased for inventory are recorded using the Perpetual Inventory System and the cost of issued items and ending balance is computed using the Moving Average Method.

2.2.4 Property and Equipment are carried at cost less accumulated depreciation. The straight-line method of depreciation is followed. The depreciation expenses are computed on the month following the purchase date.

2.2.5 Constructions in Progress are valued following the Construction Period Theory.

2.2.6 Serviceable assets which are no longer used are classified to "Other Assets" account and not subject to depreciation.

2.2.7 Payable accounts are recognized and recorded in the books of accounts at the time goods are accepted, services rendered and when supplier/creditor bills are required.

3. CASH

This account includes cash on hand of undeposited collection of collecting officers, unliquidated petty cash fund and others (change fund-P2,000), and cash deposits in banks. The details are:

Cash - Collecting Officers	211,306.10	115,641.21
Others	2,000.00	2,000.00
Cash in Bank - Current Account	8,525,380.38	2,413,240.16
Cash in Bank - Savings Account	4,541,533.07	3,815,248.25
Cash in Bank - Time Deposit Account	5,724,436.47	4,062,060.21
Total >>>	19,004,656.02	10,408,189.83

4. RECEIVABLES

This consists of:

Accounts Receivable	17,464,838.03	18,602,149.02
Due from NGAs	4,045.50	4,045.50
Due from LGU	4,735.35	7,997.12
Others	1,701,985.28	1,419,408.26
Total	19,175,604.16	20,033,599.90
Less: Allowance for Doubtful Accounts	596,240.11	596,240.11
Net Realizable Value >>>	18,579,364.05	19,437,359.79

- Accounts Receivable represents the amount due to open accounts arising from services rendered to customers from water sales and incidental services.
- Due from Officers and Employees represents collectibles from employees' funds on motor plan; education and personal calls.
- Others are collectibles from customers for their unpaid application fee balances and materials' loan accounts.

5. INVENTORIES

This consists of:

Accountable Forms	10,495.30	40,606.48
Office Supplies	112,705.46	102,363.80
Medical, Dental & Laboratory Supplies		-
Gasoline, Oil & Lubricants	113,929.56	88,715.39
Other Supplies	2,083,212.52	1,993,448.49
Spare Parts	35,042.76	36,268.93
Construction Materials	997,051.96	1,163,817.63
Drugs & Medicine		444.92
Total >>>	3,352,437.56	3,425,665.64

Other Supplies Inventory includes cost of service connection and distribution lines materials on hand at the end of the year. Construction Materials Inventory are the turned-over materials from project implementation on hand at the end of the year.

6. PREPAYMENTS

This represents payment of insurance premiums to insurable properties of the District and others (advances to contractor and other prepaid expenses). This amounted to P 500,669.43 and P 380,852.64 as of December 31, 2013 and 2012 respectively.

301,640

7. OTHER CURRENT ASSETS (OTHERS)

This account includes plant materials, chlorine borrowed by other Water District to be replaced the same or in kind; including Guaranty Deposit. This amounted to P 227,565.16 and P 227,565.16 as of December 31, 2013 and 2012, respectively.

8. NON-CURRENT ASSETS

5,175.20

This account consists of:

PROPERTY AND EQUIPMENT

2013

2012

Land	a, 716,584.51	716,584.51
Electrification, Power & Energy Structures	, 353,616.31	353,616.31
Office Building	b, 10,598,746.36	10,598,746.36
Other Structures	b, 1,241,635.57	1,072,483.57
Leasehold Improvements, Buildings	b, 53,432.38	53,432.38
Office Equipment	d3 1,316,734.47	1,162,334.47
Furniture & Fixtures	d4 860,539.82	780,079.82
IT Equipment & Software	d1 4,269,288.50	3,763,053.08
Machineries	d3 1,050,000.00	1,050,000.00
Firefighting Equipment & Accessories	d4 815,610.34	815,610.34
Medical, Dental & Laboratory Equipment	d3 84,000.00	84,000.00
Communication Equipment	d1 640,132.80	640,132.80
Sports Equipment	d4 26,333.50	26,333.50
Motor Vehicles	c 7,149,857.66	7,212,357.66
Other Property, Plant & Equipment	d4 3,544,058.14	3,278,508.14
Total	32,720,570.36	31,607,272.94
Less: Accumulated Depreciation	14,120,327.53	11,944,775.57
Net Book Value >>>	18,600,242.83	19,662,497.37

32,720,570.36
 14,120,327.53
 18,600,242.83

PUBLIC INFRASTRUCTURE

Artesian Wells, Res., Pumping Station	37,989,469.89	36,725,402.89
Waterways, Aqueducts, Seawall	87,256,242.88	82,253,579.67
Total >>>	125,245,712.77	118,978,982.56
Less: Accumulated Depreciation	47,929,633.33	43,304,253.10
Net Book Value >>>	<i>dz</i> 77,316,079.44	75,674,729.46

REFORESTATION

Reforestation - Upland	71,145.00	71,145.00
Less: Accumulated Depreciation	-	-
Net Book Value >>>	71,145.00	71,145.00

CONSTRUCTION IN PROGRESS

Artesian Wells, Res., Pumping Station	-	-
Waterways, Aqueducts, Seawall	2,030,763.14	-
Other Public Infrastructure	50,868.25	-
Other Public Infrastructure - Building	-	-
Net Book Value >>>	2,081,631.39	-

OTHER ASSETS

Unserviceable Properties	584,758.62	584,758.62
Water Meters	-	-
Items in Transit	614,827.75	883,895.52
Less: Accumulated Depreciation	-	-
Net Book Value >>>	1,199,586.37	1,468,654.14

9. CURRENT LIABILITIES

This comprises the following:

Accounts Payable	4,375,541.50	1,533,193.98
Due to Officers & Employees	5,420,035.01	5,658,410.77
Due to BIR	315,671.11	262,249.64
Due to GSIS	476,322.64	413,793.64
Due to Pag-ibig	191,229.77	194,383.58
Due to Philhealth	36,520.48	35,845.48
Due to NGAs	6,399.22	6,399.22
Guaranty Deposit	14,580.00	381,112.26
Performance/Bidders Bond	406,563.25	339,556.40
Other Payable	245,671.79	181,555.85
Total >>>	11,488,534.77	9,006,500.82

10. LOANS PAYABLE (DOMESTIC)

This consists of loans availed from LWUA & Al Amanah Bank for the different water system projects with remaining balance of P 65,256,469.68 as of December 31, 2013.

11. GOVERNMENT EQUITY

This includes the grants and donated capital for the water system in Polomolok which were turned over by the Municipal Government of Polomolok to Polomolok Water District and subsidies totaling ₱3,747,648.44.

12. RETAINED EARNINGS

Retained Earnings consists of the accumulated earnings or losses and prior period adjustments for the year.

13. INCOME

The Polomolok Water District (PWD) derives its income from Water Works System, Inspection fees, Reconnection fees, Service Connection Charges / Application Fees, Penalty Charges and Miscellaneous Income.

Inspection Fee	113,300.00	89,650.00
Other Service Income	1,315,349.00	1,093,475.10
Income from Waterworks system	71,552,194.27	64,781,595.45
Fines & Penalties - Business Income	2,133,295.01	2,047,682.80
Miscellaneous Income	264,753.74	265,829.54
Interest Income	184,678.82	194,367.13
Total >>>	75,563,570.84	68,472,600.02

14. OTHER COMPENSATION

This account is broken down as:

Personnel Economic Relief (PERA)	1,807,074.79	1,833,488.03
Representation & Transportation Allowance (RATA)	679,927.61	518,000.00
Productivity Incentive Allowance	152,000.00	156,000.00
Clothing / Uniform Allowance	380,000.00	390,000.00
Other Bonuses & Allowance	2,323,229.94	2,520,819.15
Overtime & Night Pay	327,496.68	300,938.15
Cash Gift	380,000.00	385,500.00
Year End Bonus	1,381,230.78	1,338,371.53
Total >>>	7,430,959.80	7,443,116.86

15. PERSONNEL BENEFITS & CONTRIBUTIONS

The breakdown of this account is:

Life & Retirement Insurance	1,988,034.96	1,886,383.52
Pag-ibig Contributions	331,339.15	314,397.24
Philhealth Contributions	195,725.00	185,637.50
ECC Contributions	90,600.00	91,505.83
Total >>>	2,605,699.11	2,477,924.09

16. OTHER PERSONAL BENEFITS

This expense is broken down as:

Terminal Leave Benefits	938,113.82	1,327,717.07
Provident Fund Benefits	994,017.48	963,412.92
Other Personnel Benefit	1,060,000.00	702,300.00
Other Personnel Benefit - CNA Civilian	730,070.57	-
Total >>>	3,722,201.87	2,993,429.99

17. SUPPLIES & MATERIALS EXPENSES

This expense account is composed of:

Office Supplies	265,662.95	310,675.05
Accountable Forms	60,593.18	2,800.45
Drugs & Medicines	1,027.92	994.70
Medical & Laboratory Supplies	-	-
Gasoline, Oil & Lubricants	991,928.02	359,641.38
Gasoline, Oil & Lubricants - Pumping	598,099.51	-
Fuel, Oil & Lubricants	24,062.80	974,495.76
Other Supplies	445,383.77	463,049.01
Total >>>	2,386,758.15	2,111,656.35

18. COMMUNICATION EXPENSE

This expense account is broken down as:

Postage & Deliveries	4,273.00	5,106.00
Telephone - Landline	107,641.47	115,254.78
Telephone - Mobile	143,248.30	164,026.67
Internet	54,123.00	51,711.68
Cable & Satellite	4,244.25	
Total >>>	313,530.02	336,099.13

19. PROFESSIONAL SERVICES

This expense account is broken down as:

Legal Services	55,000.00	151,435.00
Auditing Services	-	69,449.01
General Services	348,648.38	279,800.89
Security Services	666,075.36	666,743.18
Other Professional Services		-
Total	1,069,723.74	1,167,428.08

20. REPAIR & MAINTENACE EXPENSES

This expense account consists of:

RM - Power & Energy Structures	70,721.60	105,366.68
RM - Office Building	149,760.78	74,698.95
RM - Office Equipment	3,595.00	16,296.60
RM - Furniture & Fixture	2,150.00	5,495.80
RM - IT Equipment & Software	86,128.15	41,006.07
RM - Machineries	29,960.33	35,309.00
RM - Communication Equipment	9,265.00	29,520.50
RM - Med. Dental & Lab. Equipt.	9,146.50	790.00
RM - Other Machineries & Equipt.	19,851.89	41,110.00
RM - Laboratory Equipment	-	-
RM - Motor Vehicles	380,649.67	288,614.55
RM - Other Property & Equipment	117,603.00	25,336.69
RM - Artesian Wells	23,113.55	16,887.98

RM - Waterways & Aqueduct	1,198,682.87	1,236,381.55
RM - Reforestation - Upland	685,138.45	196,682.00
Total	2,785,766.79	2,113,496.37

21. DEPRECIATION EXPENSES

This consists of:

Depreciation - Electrification, Power Enery	31,825.44	30,550.44
Depreciation - Office Building	317,855.93	85,023.48
Depreciation - Other Structure	44,025.84	56,524.71
Depreciation - Leasehold Improvement	-	-
Depreciation - Office Equipment	134,996.53	133,100.49
Depreciation - Furniture & Fixtures	74,284.12	55,848.49
Depreciation - IT Equipment	376,912.19	467,256.75
Depreciation - Machineries	94,500.00	94,500.00
Depreciation - Communication Equipment	45,004.38	99,548.88
Depreciation - Firefighting Equipment	55,325.88	48,860.92
Depreciation - Medical, Dental & Lab. Eqipt.	7,560.00	7,560.00
Depreciation - Sports Equipment	2,370.00	2,855.87
Depreciation - Motor Vehicles	560,922.00	634,819.19
Depreciation - Others	458,094.64	5,094,676.54
Depreciation - Artesian Wells, Res.	1,040,153.71	-
Depreciation - Waterways, Aqueducts	3,585,226.52	-
Total	6,829,057.18	6,811,125.76

22. FINANCIAL EXPENSES

This account represents interest expenses charged on loans to Local Water Utilities Administration (LWUA) accumulated to P 7,058,440.97.

23. OTHER RECEIPTS

These inflows from operating activities represent collections of performance bidders/other receivables, water meter, refund of excess cash advances and receipts of fines and penalties for illegal connections.

PART II – OBSERVATIONS AND RECOMMENDATIONS

1. The FY 2013 Budget of the agency was not in accordance with DBM Corporate Budget Memorandum No. 33 dated December 29, 2011 and without due consideration to the Philippine Development Plan (PDP), FYs 2011-2016 which resulted to a weak linkage between development planning and budgeting as indicated by the absence of (a) data and reports statistics against performance targets; (b) efficient and value for money in spending its resources to fulfil the President's Social Contract and focus on the 5 Key Results Areas (KRAs) as laid out in Executive Order (E.O.) No. 43, s. 2011; (c) Programs/Activities/ Projects (PAPs) with corresponding budget estimates to align with their Major Final Outputs (MFOs).

DBM Corporate Budget Memorandum No. 33 dated December 29, 2011 provides for the Policy Guidelines and Procedures in the Preparation and submission of budget proposal for FY 2013.

Paragraph 6.0 of the same Circular states that :

“6.0 SUBMISSION REQUIREMENTS AND TIMETABLE

6.1 All the budget forms prescribed under Annex A shall be accomplished by all GOCCs/GFIs in accordance with the general guidelines above mentioned and specific guidelines indicated in each form.

X x x

6.3 The FY 2013 proposal portion/column of the FY 2013 Budget Proposal under this Budget Memorandum shall already be considered as the GOCC/GFI COB of the said year which shall observe the guidelines prescribed under Corporate Budget Circular No. 20 dated April 27, 2005. The GOCC/GFI shall submit a revised or supplemental FY 2013 COB in case of a modified national government support under the General Appropriations Act or availability of additional funds in accordance with this Memorandum.

6.4 Amounts indicated in the FY 2011 column and previous years of the prescribed Forms should be consistent with the available Annual COA Audited Financial Statements.

6.5 The GOCCs'/GFIs' budget proposals shall include the following:

- a) Approval of the Governing Board through a duly certified Board Resolution;*
- b) Letter of endorsement by the head of GOCC/GFI;*

- c) *Highlights of the following:*
_ *Thrust/Priorities;*
_ *Outputs; and,*
_ *System of Delivery (i.e., explicitly explaining "how" the P/A/Ps shall be implemented to achieve targeted outputs/outcome);*
d) *Five (5) complete sets of properly accomplished Budget Forms; and,*
e) *Five (5) copies each of the FY 2010 and FY 2011 Accomplishment/ Annual Reports. "*

The above-cited DBM Corporate Budget Memorandum primarily aims to strengthen the linkage between development planning and budgeting and increase the likelihood of accomplishing development goals by considering the resource requirements of key agencies as reflected in the PDP for FYs 2011-2016; improve public accountability and to *manage for results*, especially by helping government agencies use the budget for delivering direct, immediate, and substantial benefits to all Filipinos, especially the poor and vulnerable groups.

Correspondingly, the FY 2013 Budget shall uphold the fiscal policy framework of fiscal consolidation and the priority thrusts of the PDP, 2011-2016 and shall focus on the five (5) key result areas (KRAs) of the President's Social Contract with the Filipino People as laid out in Executive Order (E.O.) No. 43, s. 2011. The KRAs include:

- Transparent, accountable, and participatory governance;
- Poverty reduction and empowerment of the poor and vulnerable;
- Rapid, inclusive, and sustained economic growth;
- Just and lasting peace and the rule of law; and
- Integrity of the environment and climate change adaptation and mitigation

An MFO is a good or service that a department/agency is mandated to deliver to external clients through the implementation of programs, activities and projects (PAPs) and answer the question *-What outputs are we providing to external clients to achieve our mandate?*

The budget proposals of GOCCs must show that PAPs and corresponding budget estimates are aligned with their MFOs and with the KRAs under Executive Order 43 to ensure greater efficiency and value for money in spending government resources.

All government Departments/agencies are responsible for the implementation of PAPs that are aligned with MFOs, KRAs, and sector outcomes in the PDP Results Matrices. They are also tasked to establish results-based monitoring and reporting systems to review and report their progress using MFO performance indicators and targets indicated in their approved budget. Government managers thus need to develop corporate strategies and corresponding indicators to measure internal outputs that will drive performance in MFO delivery.

Results are monitored and evaluated in the GOP through the Official Development Assistance Portfolio Review, the Budget Performance Review, the Results Matrices monitoring, the Strategic Performance Management System (SPMS), and COA reports. **Annex A** summarizes the function of oversight and implementing agencies and their role in results monitoring.

In the verification of the approved Budget for FY 2013 of the PWD, we found out that its preparation was not in accordance with DBM Corporate Budget Memorandum No. 33 dated December 29, 2011 and without due consideration to the Philippine Development Plan (PDP), FYs 2011-2016 which resulted to a weak linkage between development planning and budgeting as indicated by the absence of (a) data and reports statistics against performance targets ; (b) efficiency and value for money in spending its resources to fulfil the President's Social Contract and focus on the 5 Key Results Areas (KRAs) as laid out in Executive Order (E.O.) No. 43, s. 2011; (c) Programs/Activities/ Projects (PAPs) with corresponding budget estimates to align with their Major Final Outputs (MFOs).

The approved FY 2013 Budget was a mere compilation of the Agency's Annual Procurement Plan (APP) together with the supporting PPMs of each Division.

The PDP Results Matrices with Government's Five major guideposts/KRAs are shown in **Annex B**. As indicated in the Matrix, the Local Water Districts (LWDs) shall implement PAPs aligned with its MFOs geared towards Sector Outcome 5b or Access to social goods and improved services. Its intermediate sector outcomes shall be aligned towards quality, adequacy and accessibility of infrastructure facilities and services enhanced with the following indicators (**Annex C**):

- Millennium Development Goal (MDG) – Target: Increase the proportion of population with access to potable water (Levels 1 & II)
- MDG Target : Eliminate the number of waterless area
- Increase the percentage of households with level III (Individual Household) connection
- Increase the percentage of households with 24/7 service (Concessionaires, WDs, small scale independent providers)

- Reduce non-revenue water (NRW) – by type of Water Service Provider (Concessionaires, WDs, small scale independent providers)
- Lessen the gap between demand and supply
- On sanitation, sewerage, septage:
 - ✓ MDG Target: Increase percentage of population with access to basic sanitation (i.e. sanitary toilets, washing areas, etc)
 - ✓ Increase percentage of households in Highly urbanized cities (HUCs) connected to the sewerage system
 - ✓ Increase percentage of households covered by septage management system

Management explained that the Corporate Budget of FY 2013 was submitted to the DBM but was not duly received. This may be so because what was submitted was the Agency's APP and not its Corporate Budget as required under DBM Corporate Budget Memorandum No. 33 dated December 29, 2011. Moreover, they presumed that their Budget need not be approved by the DBM since the Water Districts do not get subsidy from the National Government.

The Audit Team maintains that Water Districts are under the jurisdiction of the DBM. Under Executive No. 80 dated July 20, 2012 by the President of the Philippines, "Directing The Adoption Of Performance Based Incentive System For Government Employees", which ensures the accomplishment of commitments and targets under the five KRAs and PDP 2011-2016, Water Districts (WDs) are listed as one of the GOCCs under the jurisdiction of the DBM.

We recommended and management agreed to prepare its FY 2014 Budget on the basis of DBM Corporate Budget Memorandum No. 34 dated December 28, 2012 or the Policy Guidelines and Procedures in the Preparation and Submission of the FY 2014 Budget Proposals to strengthen the linkage between development planning and budgeting and for the COA to be able to monitor and evaluate the accuracy of departments/agencies' reported performance against its approved targets with due consideration to the efficient implementation of PAPs that are aligned with MFOs, KRAs, and sector outcomes in the PDP Results Matrices.

2. **Management's assertion on ownership for three (3) Pump Stations and Reservoir cannot be established due to the absence of a Torrens Title drawn in its favor over the land where these stations were constructed which is not in accordance with Section 49, Article 11 of the GAAM and may result to risk of losses on the part of the government. Moreover, the recording of these land overstated the Property, Plant and Equipment (Land) account by P410,031.78**

Section 49, Article 11 of the Government Accounting and Auditing Manual, Volume I states:

“Land purchased by agencies of the Government shall be evidenced by a Torrens Title drawn in the name of the Republic of the Philippines, or such other document satisfactory to the President of the Philippines that the title is vested in the Government”

Also, management’s assertions on the presentation of the financial statements include among others, existence, ownership and proper valuation of assets acquired.

Review of the accounts revealed that the costs of Construction/Renovation of various Pump Stations were recorded under Artesian Wells, Pumping Stations, Conduits and Construction-In-Progress accounts. While the book value of the lot was recorded under Property, Plant and Equipment (PPE-Land). However, management’s assertion on ownership cannot be established due to the absence of a Torrens Title drawn in its favor over the land where these pump stations were constructed. This also overstated the PPE (Land) account by P410,031.78. Composition of these accounts are as follows:

Pump Station	Location	Book Value	Remarks
No. 4	Brgy. Cannery, Polomolok, South Cotabato	NA	Under Lease Contract with DARBCI
No. 6	Brgy. Polo, Polomolok, South Cotabato	P5,031.78	With Deed of Donation/Transfer
No. 7	Brgy. Upper Klinan, Polomolok, South Cotabato	P405,000.00	Transfer is on process/ with Deed of Absolute Sale
*Total book value of property recorded under PPE (Land) = P410,031.78			

We are concerned that management assertion on ownership relative to these properties cannot be established due to its questionable ownership of the land where these are presently constructed. Absolute ownership of land, therefore, cannot be strongly established in the absence of land title or documents showing transfer of ownership from the previous owner to the Polomolok Water District. Moreover, the government shall be at risk of losses in the event that the title thereto shall be not be transferred in the latter's name.

We recommended and management agreed to give preferential attention on the titling of lands and secure other documents evidencing its ownership to prevent possible losses of government property. Exert extra effort to secure the needed documents required to facilitate transfer of ownership.

- 3. The Polomolok Water District contributed and remitted an excess HDMF (Pag-IBIG) premium contributions of employer's share totaling P240,739.16 representing the 2% of the employees' salary for the period January 2 to December 31, 2013 contrary to Section 7 of Republic Act No. 9679 Home Development Fund Law of 2009.**

Section 7, of Republic Act No. 9679 of the Home Development Mutual Fund provides:

"Fund Generation and Contributions. – The money of the Fund shall be generated by the provident savings that the covered employees shall contribute for the purpose every month, and the equal amounts that their respective employers shall mandatorily contribute.

Covered employees and employers shall contribute to the Fund based on the monthly compensation of covered employees as follows:

Employee earning not more than One thousand five hundred pesos (1,500.00) per month – one percent (1%).

Employees earning more than One thousand five hundred pesos (1,500.00) per month – two percent (2%).

All employers – two percent (2%) of the monthly compensation of all covered employees.

The maximum monthly compensation to be used in computing employee and employer contributions shall not be more than Five thousand pesos (P5,000.00): Provided, that this maximum may be fixed from time to time by the Board of Trustees

through rules and regulations adopted by it, taking into consideration actuarial calculations and rates of benefits."

Review of the monthly payrolls and remittances of HDMF (Pag-IBIG) premium contributions from January 2, 2013 to December 31, 2013 disclosed the total remittances for employer's share amounting to P331,339.16 and employees' share of P331,339.16. Post-audit of payrolls for regular personnel of PWD disclosed that each employee contributed 2% monthly of their basic salary and the District remitted the employer's share equivalent to 2% of the basic salary of personnel instead of the maximum mandatory employer's contribution of P100.00 or 2% of P5,000.00.

Under RA 9679, the maximum monthly compensation to be used as basis in computing the employer share is only Five Thousand Pesos (P5,000.00) or P100.00 per month and not the current monthly basic salary of personnel. This resulted in an over-remittances of P240,739.16 of HDMF (Pag-IBIG) premium contributions of employer's share (*Annex D*), resulting in over-remittance of HDMF employer share, representing an additional expense of the Agency. On the part of the employees, the 2% premium contributions are additional deductions from their gross salary, instead of being deducted at P100.00 per month.

We recommended and they agreed that the General Manager should instruct those in charge of the payroll preparation and those in charge for the computation of mandatory deductions to properly compute the Pag-IBIG premiums at P100.00 for employer's share per employee.

We recommended to strictly follow the maximum ceiling of Five Thousand Pesos (P5,000.00) monthly to be used in the computation of employer share as provided under Section 7 of RA 9679, otherwise known as the HDMF Fund Law of 2009, unless amended.

4. The uncertainty in the collection of long overdue receivables from concessionaires amounting to P14,159,681.27 ranging from 1 year to more than one year misrepresented the real valuation of agency's current assets as of yearend.

An asset should be classified as a current asset when it is expected to be realized in the normal course of the operating cycle. The Accounts Receivable-Customers include accounting of receivable for revenue from the sale of water, and provision for services, supplies and materials for water connections. The Accounts Receivables - Customers amounting to P14,159,681.27 is composed of the following:

Total 1 yr. and above (Active)	P- 2,919,236.39
Total 1 yr. and above (Inactive)	<u>11,240,444.88</u>
Total 1 yr. and above	<u>P14,159,681.27</u>

International Accounting Standards (IAS) 18 par. 22 states that :

“ Revenue is recognized only when it is likely that the company receives the economic benefits of the transaction. However, when there is some uncertainty about the extent of recovery of an amount already included among ordinary income, the amount of bad or the amount for which recovery is no longer probable, is recognized as an expense, instead of adjusting the amount of revenue originally recognized.”

Verification revealed that out of the agency's accounts receivable totaling P17,464,838.03, or about 81% or P14,159,681.27 included accounts which are existing for more than one (1) year and collectability is already uncertain. Management, however, does not maintain a summary report on the subsidiaries of individual concessionaires thus, identification of an accurate and detailed accounts with doubtful collectability cannot be readily submitted.

Although the Collection Section maintains individual ledger cards for each concessionaire, the preparation of a summary status report was not accomplished since there is no employee assigned to do the work and this entails substantive extractions from the generated data in the collection system.

We are concerned that the Accounts Receivable – Customers is overstated by an amount determined to be uncollectable or unrealizable.

We recommended and management agreed to (a) intensify the collections of these accounts; (b) establish an updated subsidiaries of individual customers and set up an ageing of accounts receivable from one year and above; (c) set-up a record of individual accounts receivable wherein which recovery or collectability is no longer probable and (d) for accounts whose collectability is already nil, request for write-off to the Commission On Audit as per Section 19 of the Rules and Regulations of Settlement of Accounts and Rule VI, Section 4 of the 2009 Revised Rules of Procedures of the COA, as amended by COA Resolution No. 2012-001 dated March 22, 2012.

Rule VI, Section 4 of the 2009 Revised Rules of Procedures of the COA states that:

“Original Jurisdiction. - *The ASB shall exercise original jurisdiction over cases involving the (1) write-off of unliquidated cash advances and dormant accounts receivable in an amount not exceeding One Million Pesos; and (2) requests for relief from accountability for losses due to acts of man, i.e. arson, theft, robbery, etc. involving amounts in excess of five hundred thousand pesos (P500,000.00) but not exceeding five million pesos (P5,000,000.00).”*

COA Resolution No. 2012-001 dated March 22, 2012 abolished the COA Adjudication and Settlement Board (ASB) and ruled that all cases under the jurisdiction of the ASB shall be filed with the COA Commission Proper (CP).

The request for write-off shall be supported by documents to support the reason/grounds upon which the request was predicated. Accordingly, it is recommended that management be required to submit pertinent documents for COA to be able to conduct a careful evaluation of the request at hand, such as but not limited to the following:

- a) Copies of demand letter duly sent /returned;
- b) Agency and/or COA Findings and Recommendation on the dormant accounts receivable
- c) Other documents to prove that all efforts were already made to collect the receivables but such efforts remained futile as of to date.

5. Lapses in adopting sound internal control procedures and practices in the management of inventories established opportunities for losses of government property due to the agency’s failure to establish adequate storeroom facilities and set-up clearly defined policies on segregation of duties handling its inventories.

Internal controls, as provided under Section 39, Volume III of the Government Accounting and Auditing Manual (GAAM) can be categorized into accounting controls, financial controls and administrative controls and are briefly described as follows:

- “ a) *Accounting controls pertain to the plan of organization, the procedures, and records that ensure the accuracy and the reliability of financial transactions.*

b) *Financial controls include the methods and procedures concerned with safeguarding of assets.*

c) *Administrative controls include, but are not limited to, the plan of organization, the procedures and records concerned with the management decision processes authorizing transactions. They include controls over administrative offices, such as, personnel records and administrative functions."*

Among the specific standards to be considered in designing a sound internal control system of an organization is on "Safeguarding of Assets" to protect government property from losses, whereby the agency's custodial function is given due importance. This standard endorses the performance of key duties and functions, such as authorization, custody and accounting to be assigned to separate offices and individuals to eliminate opportunities for losses of government property and to ensure the existence of an effective check and balance. In line with this standard, the following functions and responsibilities, on an agency-wide basis, shall be separated or performed by different employees/departments to avoid giving one office or individual inordinate control over transactions resources.

- a) Transaction authorization (a management function);
- b) Transaction execution (a custodial function);
- c) Transaction recording (an accounting function); and
- d) Periodic accountability (an internal audit function).

Evaluation of its internal control system on the management of inventories revealed the absence of a sound internal control procedures and practices which resulted to an unreliable inventory balance of P3,080,264.48 and established opportunities for losses, irregularities and effective check and balance. These are evidenced by the existence of the following inadequacies:

a. *Inadequate stockroom facilities*

It shall be standard operating practice that the stockroom facilities shall :

- preclude unauthorized access to this area
- provide adequate storage space
- provide specialized storage where needed
- have an effective security system
- facilitate receipt and disposition of items in storage

Actual inspection of the stockroom revealed that the above-cited elements of an adequate and secured storeroom are absent.

b. *Segregation of duties and functions for receiving, storing and issuing are not clearly defined and assigned to only one employee*

Among the specific standards to be considered in designing a sound internal control system of an organization is on "Segregation of Duties and Functions". This standard endorses the performance of key duties and functions, such as authorization, custody and accounting to be assigned to separate offices and individuals to eliminate opportunities to conceal errors and irregularities and to ensure the existence of an effective check and balance. In line with this standard, the following functions and responsibilities, on an agency-wide basis, shall be separated or performed by different employees/departments to avoid giving one office or individual inordinate control over transactions resources.

However, it was observed that the functions of receiving, storing and issuing are not clearly defined and assigned to only one employee. The person who supervises/makes the count is not independent of the custodian function and stock record clerk.

We recommended and management agreed to install a sound internal control system on the management of its inventories to eliminate material misstatements of accounting information, ensure appropriate segregation of duties and adequate provisions for safeguarding assets.

- 6. The format of the Electronic Official Receipt (E-OR) issued by management thru their computerized system on Billing and Collection does not conform with the minimum data content as required under COA Circular No. 2013-076 dated September 18, 2013 or the Guidelines for the use of electronic official receipts (eORs) to acknowledge collection of income and other receipts of government.**

Paragraph 3 of COA Circular No. 2013-076 dated September 18, 2013 states that:

3.3 The eORs shall have the following minimum data content:

- 3.3.1 Name of the agency issuing the receipt (Department/Agency/Regional Office/Operating or Field Unit)
- 3.3.2 Location and Location Code (place where the collection is made and its assigned code)
- 3.3.3 Name of payor (person/entity making the payment)
- 3.3.4 Date and time of receipt (date and time of the collection and issuance of eOR)
- 3.3.5 Nature of collection (such as income tax, business tax, fees, charges, assessments, licenses, etc.)
- 3.3.6 Amount received, detailed as to nature of collection coded as to their subsidiary ledger revenue classification
- 3.3.7 eOR Number (a unique and sequential number generated by the system for every eOR issued)
- 3.3.8 Transaction Number (number generated for every transaction accepted by the system which does not necessarily pertain to the generated eOR. It may include cancellation of eOR, inquiry, etc.)
- 3.3.9 Mode of payment (credit card/electronic fund transfer/ATM/G-Cash, etc.)
- 3.3.10 Order of Payment Slip Number or Assessment Number

In the verification of the official receipts issued by management representing payments by customers for water services, it was observed that the format of the Electronic Official Receipt (E-OR) issued by management thru their computerized system on Billing and Collection does not conform with the minimum data content as required under COA Circular No. 2013-076 dated September 18, 2013 or the Guidelines for the use of electronic official receipts (eORs) to acknowledge collection of income and other receipts of government. These minimum data which are not available on the eOR are the following:

1. Location and location code (Place where the collection is made and its assigned code) which is relevant to PWD since it avails of payments through banks.
2. Amount received, detailed as to nature of collection coded as to their subsidiary ledger revenue classification
3. Transaction Number (number generated for every transaction accepted by the system which does not necessarily pertain to the generated eOR. It may include cancellation of eOR, inquiry, etc.)
4. Order of Payment Slip Number or Assessment or Billing Number

The existing format of the E-OR of the PWD has already been printed before the COA Circular No. 2013-076 dated September 18, 2013 was

disseminated. Thus, management requested that they be allowed to utilize all the available printed ORs and upon reorder point, they shall already effect the requirement set forth in the said COA Circular.

We recommended and management agreed to comply with the requirements set forth in Paragraph 3 of COA Circular No. 2013-076 dated September 18, 2013.

Status of Suspensions, Disallowances and Charges

As of December 31, 2013, the disallowance amounted to ₱ 3,845,075.30* and still unrecorded in the books pending decision from Petition for Certiorari.

The above stated amount was per COA Decision No. 2012-222 dated November 26, 2012 affirming the disallowances but said total amount is "*subject to review/finalization by COA Regional Office No.XII due to the aggregate disallowed amount of P3,845,075.30 indicated in the appealed COA Region XII Decision No. 09-05 differs from the combined amount of P1,701,410.96 of the four NDs, or a difference of P2,143,664.34. Review of the records of the case showed that the amount of P3,845,075.30 was sourced from the three Audit Observation Memoranda and the Audit Query issued by the ATL of PWD and the then RCD, then Cluster III-Public Utilities, CGS, COA ROXII*".

No Notices of Disallowance, Suspension nor Charges were issued for CY 2013.

Implementation of Gender and Development (GAD)

Actual GAD budget is P500,000.00 or .73% only of the required 5% of agency's total appropriations, while expenditures totaled P80,244.93 or equivalent to 16% of the total GAD budget since management prioritized implementation of projects on repair, maintenance and expansion of its water facilities.

Compliance with Tax Laws and Regulations

The District withholds and remits applicable taxes imposed under the National Internal Revenue Code. Total tax remittances for the year was P3,768,818.87.

**PART III - STATUS OF IMPLEMENTATION OF PRIOR
YEARS' AUDIT RECOMMENDATIONS**

We made a follow-up on the action taken by the Polomolok Water District to implement the recommendations cited on the 2012 Annual Audit Report and on prior years' remaining unimplemented audit recommendations and noted the following:

Status of Implementation	No. of Recommendations	Reason for Partial/Non-Implementation
Fully Implemented	11	
Partially Implemented	0	
On-going	4	
Not Implemented	0	

The results of the validation of the implementation of prior years' recommendations are presented in **Annex E**.

PART IV - ANNEXES

- Annex A** - Summary of the function of oversight and implementing agencies and their role in results monitoring.
- Annex B** - The 2011-2016 PDP Results Matrices with Government's Five major guideposts/KRAs
- Annex C** - The 2011-2016 PDP Results Matrices with Intermediate Sector Outcomes and Indicators
- Annex D** - HDMF (Pag-IBIG) premium contributions of employer's share
- Annex E** - Validation of Implementation of Prior Years' Audit Recommendations

Summary of The Function Of Oversight And Implementing Agencies And Their Role In Results Monitoring.

	Function	Results Monitoring Role
NEDA	Evaluates effectiveness of MFO impacts on societal goals and sector goals – <i>measures effectiveness</i> . Facilitates formulation of PDP	Develops and runs an econometric model to measure contribution of MFOs in delivering change at the national level. Monitors the performance of the mix of MFOs produced by government agencies to deliver societal goals and sector goals in terms of broad economic and social statistics.
DBM	Negotiates delivery of MFOs on a <i>value for money</i> basis from departments/agencies – <i>negotiates performance contracts</i> . Ensures allocation of funding to MFOs is consistent with MTEF/FEs, PDP, and PIP	Monitors the delivery of MFOs in accordance with performance targets agreed upon with departments/agencies. Carries out analysis to ensure performance targets are realistic and reported performance is valid.
DOF	Funds the budget through borrowing and taxes subject to a <i>performance contract with the government</i>	Supervises revenue operations and manages all public debt
CSC	Promotes continuous improvement through an individual performance incentive system; Collaborates with DBM on a <i>performance based remuneration framework linked to delivery of MFOs</i>	Manages personnel performance evaluation
COA	Quality assurance, accounting, and auditing, including performance audits; ensures <i>accuracy of departments/agencies' reported performance</i> .	Gathers data and reports statistics against performance targets agreed upon with DBM and uses this data to continuously improve its own performance. Provides performance reports on the delivery of its MFOs to the President and Congress to promote transparency and accountability

Results Matrices with Government's Five Major Guideposts

Inclusive growth and poverty reduction

GOVERNMENT'S FIVE MAJOR GUIDE POSTS*	Stable macroeconomy achieved	Sector Outcome 3 Globally competitive and innovative industry and services sectors achieved	Sector Outcome 4a Food security improved	Sector Outcome 4b Incomes in agriculture and fishery sector increased	Sector Outcome 4c Sector resilience to climate change increased	Sector Outcome 4d Growth in agriculture and fishery sector increased	Sector Outcome 5a Performance of tourism, agriculture and industries improved	Sector Outcome 5b Access to social goods and services improved	Sector Outcome 5c Environmental quality improved	Sector Outcome 5d Resilience to climate change and natural disasters increased
Anti-Corruption/ Transparent, Accountable and Participatory Governance	✓	✓					✓			
Poverty Reduction and Empowerment of the Poor and Vulnerable	✓	✓		✓		✓	✓	✓		
Rapid, Inclusive and Sustained Economic Growth	✓	✓	✓	✓			✓	✓		
Just and Lasting Peace and the Rule of Law										
Integrity of the Environment and Climate Change Mitigation and Adaptation					✓				✓	✓

Inclusive growth and poverty reduction

Financial system made resilient and inclusive Sector Outcome 6.	Effective and transparent governance practiced Sector Outcome 7a.	Enhanced access to justice Sector Outcome 7b.	Human development status improved Sector Outcome 8.	Stable national security environment achieved Sector Outcome 9.	Natural resources conserved, protected and rehabilitated Sector Outcome 10a.	Environmental quality for a cleaner and healthier environment improved Sector Outcome 10b.	Resilience of natural systems enhanced with improved adaptive capacities of human communities Sector Outcome 10c.
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GOVERNMENT'S FIVE MAJOR GUIDE POSTS*							
Anti-Corruption/ Transparent, Accountable and Participatory Governance	✓	✓	✓	✓	✓	✓	✓
Poverty Reduction and Empowerment of the Poor and Vulnerable	✓	✓	✓	✓	✓	✓	✓
Rapid, Inclusive and Sustained Economic Growth	✓	✓	✓	✓	✓	✓	✓
Just and Lasting Peace and the Rule of Law				✓			
Integrity of the Environment and Climate Change Mitigation and Adaptation						✓	✓

*All five priorities cover the 16-Point Agenda under the President's Social Contract with the Filipino People.

Objectives	16-point Agenda	Indicators/Units	Baseline		End-of-Plan Target	IAS/ OAS
			Year	Value		
Societal Goal: Inclusive growth and poverty reduction						
5a. Performance of tourism, agriculture, and industries improved						
		Refer to Chapter 3: Competitive Industry and Services Sectors and Chapter 4: Competitive and Sustainable Agriculture and Fisheries Sector				
5b. Access to social goods and services improved						
		Refer to Chapter 8: Social Development				
5c. Environmental quality improved						
		Refer to Chapter 10: Environment and Natural Resources				
5d. Resilience to climate change and natural disasters increased						
		Refer to Chapter 10: Environment and Natural Resources				
Intermediate Sector Outcome						
Quality, adequacy and accessibility of infrastructure facilities and services enhanced						
	Agenda 2, 7, 9, 13, 14, 15	Transport				
Water Transport						
		• Increase cargo throughput (million metric tons per annum)				
		▪ Subic Bay Port	2008	1.87	11.37	SBMA
		▪ Philippine Ports Authority (PPA) Ports	2010	165	217	PPA
		• Increase number of passengers (in million)	2010	52	75	PPA
		• Increase number of vessels (in thousand)	2010	331	412	PPA
		• Increase passenger capacity in port terminal building (in number of seating capacity)	2010	20,638	25,193	PPA
		• Increase number of ports certified to ISO standards on selected processes	2010	0	7	PPA