



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. 1
City of San Fernando, La Union
Tel No: (072) 888-6780 to 81

May 25, 2017

THE BOARD OF DIRECTORS
San Carlos City Water District
San Carlos City, Pangasinan

SAN CARLOS CITY WATER DISTRICT
SAN CARLOS CITY, PANGASINAN
RECEIVED

SIGNATURE: [Signature]
DATE: 5/30/2017

Dear Board of Directors:

We transmit herewith the report on the financial and compliance audit of the accounts and operations of San Carlos City Water District for the year ended December 31, 2016 in compliance with Section 2, Article IX-D of the Philippine Constitution and pertinent sections of Presidential Decree No. 1445.

The audit was conducted to ascertain the propriety of financial transactions and compliance with prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements.

We rendered a qualified opinion on the financial statements due to the negative balances of four accounts under the District's Liabilities in the Financial Statements (P597,709.26). Also, Depreciation Expense for CY 2015 amounting to P4,338,909.90 was booked in CY 2016 making it appear that this was incurred in the current period instead of making an adjustment in the Retained Earnings, thereby overstating the account by the same amount contrary to Generally Accepted Accounting Principles which prescribed the practice of matching concept principle.

The report consists of four parts: Part I – Audited Financial Statements, Part II – Detailed Findings and Recommendations, Part III – Status of Implementation of Prior Year's Audit Recommendations and Part IV – Annexes. The findings and recommendations were discussed with concerned management officials and staff in an exit conference held on February 23, 2017. Management's comments are included in the report, where appropriate. The summary of our observations and recommendations are as follows.

- a. Depreciation Expense for CY 2015 amounting to P4,338,909.90 was booked in CY 2016 making it appear that this was incurred in the current period instead of making an adjustment in the Retained Earnings, thereby overstating the account by the same amount contrary to Generally Accepted Accounting Principles which prescribed the practice of matching concept.

We recommended that Management adhere to existing accounting principles and standards as those mentioned in the preceding paragraph for a more accurate and reliable accounts to meet the qualitative characteristics of an FS as required under PFRS.

- b. The District's Statement of Condition showed four accounts under Liabilities with negative balances amounting to P597,709.26 which made an impression that there were either overpayments or errors in recordings. As it is, the accuracy and reliability of the accounts as presented in the FS is doubtful contrary to existing accounting principles as stated under the International Financial Reporting Standards (IFRS).

We recommended that Management require the accounting personnel to determine the cause of the abnormal balances of the subject accounts. Those in charge should to the extent review prior and current years' entries to determine the erroneous recording made. Thereafter, prepare a journal entry vouchers for all correcting accounting entries in accordance with existing accounting policies and standards.

- c. Employees share for GSIS compulsory premiums, arrearages and interests for non-payment covering the period June 1978 to March 1992 were paid by the District based on a MOA contrary to COA Circular No. 2012-003 dated October 29, 2012 on the prevention and disallowance of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable Expenses.

We have recommended to Management the following:

- a) To immediately stop the payment of the remaining obligations to the Government Service Insurance System there is a settlement on the issue on who are the employees whose share are still to be paid by the District is settled; for the reason that the District is paying what is not supposed to be paid.
- b) Demand payments from those employees whose employee's/employer's contribution should have not been paid by the District for reason that these are no longer in the government service. Failure of Management to demand refund of the payments made will mean holding those who allowed the payment liable/accountable for the corresponding amount.
- c) Require those concerned employee affected on the amortization schedule to pay the District the premiums paid by them to the GSIS otherwise these officers/employees who allowed the advance payment from the funds of the district shall be held accountable of the full amount.

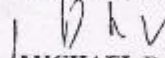
- d) File a letter request to the GSIS to return the total amount of interests paid to them for the reason that the District should not be held answerable of the Prior Years' interests on unpaid premiums considering that Local Water Districts were declared and known as government-owned or controlled corporations only in 1992, otherwise this will be disallowed holding the officials, General Manager and the Board, liable.
- d. SCWD failed to include in the terms and conditions the proper accounting of Property Plant and Equipment and the corresponding depreciation expenses which resulted in the non-recognition of the same in the books for the CY 2015. In effect this resulted in the incurrance of net loss amounting to ₱6,912,897.49 for CY 2016.

We recommended that Management discuss with Prime Water on how these PPEs will be treated under the JVA. SCCWD should see to it that in any case that there will be additions in the terms and conditions for the proper treatment of the PPEs and the corresponding depreciation, this should be more advantageous to the District to avoid losses.

We request that the comments and observations and recommendations contained in the said report be fully addressed and we would appreciate being informed of the action taken in this regard within sixty (60) days from receipt hereof, pursuant to Section 96 of the General Provisions of Republic Act No. 10717, otherwise known as General Appropriations Act of 2016, by accomplishing the Agency Action Plan and Status of Implementation attached herewith.

We acknowledge the cooperation extended to the audit team by the officials and staff of that Water District.

Very truly yours,


MICHAEL R. BACANI
OIC- Regional Director