

### PART III

#### STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
<p>1. The account balance of the Property, Plant and Equipment which totaled P125.082 million cannot be relied upon for the following reasons:</p> <p>1.a The Construction in Progress account balance of P6.302 million was grossly overstated since only one project with a cost of P3,259.83 was on-going at year-end. The difference of P6.299 million or approximately 99.94% of the account balance represents either completed projects, transactions for reclassification/adjustments or projects deferred due to problems in land acquisition. The delay in the transfer of the completed projects which totaled P5.275 million to the appropriate PPE accounts has resulted in the misstatement of the balances of the Plant (UPIS) and Buildings and Structures accounts and their corresponding accumulated depreciation/depreciation expense. Moreover, the PPE subsidiary ledger carried negative (abnormal) balances totaling P22,647.15 and was less by P429.06 if compared with the General Ledger Balance.</p>	<p>Annual Audit Report CY 2013</p>	<p>The management is now processing the close-out of completed projects which are still under the account Construction in Progress. The delay was brought about by the lack of documents required to support the costs charged to the various projects. Thus, management has decided to prepare as-built plans (where applicable) and use the available data on the cost of the subject projects.</p>	<p>Considered not implemented.</p> <p>This issue is reiterated in the current year's report.</p>

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<p>We requested management to implement the following audit recommendations:</p> <ul style="list-style-type: none"> <li>• Direct the Division Manager C – Finance to draw the JEVs for the transfer of the completed projects from the CIP accounts to the appropriate PPE accounts. Thereafter, require the computation of the monthly depreciation expense using as reference the guidelines set forth in COA Circular No. 2004-003 dated October 4, 2004.</li> <li>• Instruct the OIC - O &amp; M Division Manager to submit to the Finance Division all the papers pertaining to the reported completed projects to facilitate the transfer of these assets to the appropriate PPE accounts. Henceforth, require the Operations and Maintenance Division to furnish the Accounting Section all the papers pertaining to a completed project within the quarter when the project was validated as 100% completed so that the appropriate adjustments can be effected in the accounting books.</li> <li>• Require the Division Manager C – Finance to draw the JEVs for all the identified transactions for adjustments to put all PPE account balances in order. It is also recommended that the Division identify the cause of the difference between the GL and SL balances for Construction In Progress-Plant and effect the necessary</li> </ul>			



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<p>disposal of the items to comply with the guidelines prescribed under the NGAS Manual. We further recommended that these items be disposed following the provisions of Section 79 of PD 1445.</p> <p>1.d The lapsing schedule prepared by management did not show the equipment salvage value, the amount subject to depreciation and the book value at the end of each month. In consequence, management was not able to immediately detect/correct several erroneous balances under the column "Accumulated Depreciation."</p> <p>We recommended that management require the Finance Division to provide the following columns in the lapsing schedule to be prepared at the end of each month: (a) Residual Value; (b) Amount Subject to Depreciation and (c) Book Value/Carrying Amount to facilitate review by top management and/or any review body of the computed Depreciation Expense and the Accumulated Depreciation to Date.</p>	<p>Annual Audit Report CY 2013</p>	<p>The Lapsing Schedule has been reformatted to include a Residual Value column. The annual depreciation expense has been reconciled with the book balances and adjusted accordingly.</p>	<p>Considered fully implemented.</p>
<p>2. There is no assurance that the year-end balance of the Accounts Receivable in the amount of P4.874 million was stated at its estimated realizable value, due to the following conditions:</p>			

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<ul style="list-style-type: none"> <li>The adequacy of the Allowance for Doubtful Accounts in the amount of P1,558,449.13 has not been reviewed/adjusted since CY 2004. Thus, the balance at year-end did not reflect the current status of the accounts.</li> <li>The audit recommendation to identify the causes of the recurring differences between the General Ledger Balance and the Aging Schedule of Accounts Receivable and to effect the necessary adjustments in either books are considered not implemented since a difference of P376,551.23 still exists at year-end. The GL balance was still higher, which situation will not enable the agency to collect the accounts because the debtors were not identified.</li> </ul> <p>We recommended and Management agreed to review the adequacy of the Allowance for Doubtful Accounts using the accounting policy adopted under the New Government Accounting System (NGAS). We also reiterated our previous year's audit recommendation for the Billing Division to send collection letters to all customers under the "inactive status" as this will determine the collectibility of their accounts which is one factor to be considered in the review of the Allowance.</p>	Annual Audit Report CY 2013	<p>Management has reviewed the amount that should be recorded to reflect a realistic Allowance for Doubtful Accounts. The adjustment was charged to Prior Years' Adjustment.</p> <p>Management is inclined to write off the unlocated receivables totaling P375,309.01 if will be authorized by COA.</p> <p>For the current year, the Finance Services Department has explained to the Audit Team the transactions which caused the difference between the General Ledger balance of the Accounts Receivables under (SL 111-01) and the Aging Schedule.</p>	<p>Considered partially implemented.</p> <p>The first audit observation in this year's report pertains to Accounts Receivable.</p>

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<p>We further reiterated our previous year's audit recommendation for the Accounting and Billing Divisions to identify the causes of the difference of P376,551.23 between the GL Balance and the Aging Schedule so that appropriate adjustments can either be effected or a request for write-off be initiated.</p>			
<p>3. Checks issued in the name of the Cashier A for payment of personnel benefits such as allowances of caretakers, monetization of unused leave credits and daily compensation of Job Order personnel were immediately treated as expense instead of cash advance for payroll (Payroll Fund) as required under COA Accounting Circular No. 2006-001. With this practice, management cannot be provided with a ready record for monitoring the outstanding cash advances on said transactions.</p> <p>We recommended and management agreed to comply with the instructions on the accounting treatment for various cash advances as set forth under COA Accounting Circular No. 2006-001 dated November 9, 2006 and COA Accounting Circular Letter No. 2007-001 dated January 19, 2007 to ensure proper presentation in the financial statements of subject transactions.</p>	<p>Annual Audit Report CY 2013</p>	<p>The management has implemented this recommendation in compliance with the instructions on the accounting treatment for various cash advances as set forth under COA Accounting Circular No. 2006-001 dated November 9, 2006 and COA Accounting Circular Letter No. 2007-001 dated January 19, 2007 in December 2013.</p>	<p>Considered fully implemented.</p>
<p>4. The purchase of the various software to automate the operating processes of the Water District was contrary to existing government procurement regulations, as follows:</p>	<p>Annual Audit Report CY 2013</p>	<p>Quoted hereunder are the statements of management on this subject audit observation:</p>	<p>Considered partially implemented.</p> <p>As noted, there were purchases in 2014 which were not supported with</p>

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<ul style="list-style-type: none"> <li>The procurement for the computerization of the water district's various processes/operations which amounted to P380,000.00 was done without the benefit of public bidding or any of the alternative methods of procurement, a decision which is contrary to Sections 10 and 48 of the Implementing Rules and Regulations (IRR) of RA 9184. Moreover, this procurement transaction was not posted in the PhilGEPS bulletin board which is a requirement under Section 8.2.1 (a) of the aforementioned IRR. Thus, there was neither an assurance that the most advantageous price for the government was obtained nor was there a concrete basis to ascertain the technical capability of the firm/supplier.</li> <li>The Memorandum of Agreement (MOA) contained a provision for the payment of fifty percent (50%) of the contract amount which is not in conformity with the instructions under Item 4.3, Annex D, IRR of RA 9184.</li> <li>The agreement did not include a provision on liquidated damages which is also a requirement under Section 68 of the IRR.</li> <li>The MOA further contains a provision for CWD to refund all expenses incurred by the contractor during the travel to the Water District such as transportation, board and</li> </ul>		<ul style="list-style-type: none"> <li>In our preliminary survey of the cost of installing a computerized recording system, the cost would run to a million or more. Thus, when a program was presented to us by JMK IT Solutions, we deemed it more advantageous to the government that we avail of this IT program under a Memorandum of Agreement with the programmer Exequiel Cabrigas III. It is worth to consider that the said program was already up and running in Catbalogan Water District, where Mr. Cabrigas is an employee.</li> <li>After the initial installation of the software, the Water District requested several customizations to suit the reportorial needs of the office. This resulted in the extension of the full implementation of the program.</li> <li>To date, the system is already in place with some fine tuning as to the format of the reports.</li> </ul>	<p>Requests for Price Quotations (RFQs). PhilGEPS posting for purchases above P50,000.00 was not also strictly implemented.</p>

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<p>lodging, and per diems of Php 800.00/day which is considered a disadvantageous stipulation because said expense was not time-bounded nor was supported with a list of personnel authorized to travel and the purposes for said travels. As it is, this particular expense may considerably add to the cost of the project but may not be noticed by the Water District.</p> <ul style="list-style-type: none"> <li>The Disbursement Vouchers (DVs) for the monthly installments were not supported with a Certificate of Acceptance from the Water District on the work items accomplished, a practice which is not in keeping with the rules and regulations of an effective internal control system.</li> </ul> <p>We recommended that Management require strict compliance of the Implementing Rules and Regulations of RA 9184 so that all procurement activities will result in the most advantageous price/terms for the Water District. We further recommended that Management validate the accomplishments of JMK IT Solutions to serve as basis in the computation of the liquidated damages that shall be imposed on the supplier. Thereafter, we recommended that all liquidated damages be deducted from any money due or may become due to the supplier pursuant to Item 3.2 of Annex D, IRR of RA 9184.</p> <p>We also recommended that Management use as reference COA Circular No. 2012-001 dated</p>		<ul style="list-style-type: none"> <li>As to the other findings and recommendations, the Water District will commit to abide by the provisions of R.A. 9184 in its future procurement transactions.</li> </ul>	



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June 14, 2012 on the subject: Prescribing the Revised Guidelines and Documentary Requirements for Common Government Transactions, when effecting payment to employees, suppliers and other parties.			
<p>5. Several checks were issued and released to the creditors even if the corresponding disbursement vouchers have either not been approved by the General Manager or signed by the Division Manager C – Finance, a decision which is a violation of Section 4 (5) of PD 1445. This condition is also considered a serious breakdown in the internal control system of the Water District and likewise indicative of pre-signing of blank checks.</p> <p>We recommended that management direct the Cashier A / Disbursing Officer to prepare checks only when the covering Disbursement Voucher has been duly signed by the Accountant and approved by the Head of Office to assure that all the basic requirements for payment have been complied with by the Water District.</p>	Annual Audit Report C Y 2013	Management committed to be more vigilant in the proper documentation of disbursements prior to issuance of checks.	Considered implemented.
<p>6. Part of the cash advance that was granted to the General Manager for the attendance of CWDs officials in a PAWD conference was transferred to four BOD members who participated in the activity. This transfer of accountability violated Section 4.1.6 of COA Circular No. 97-002 dated February 10, 1997. Moreover, if tolerated, this arrangement may result in delayed liquidation of cash advances and/or accumulation of cash advances since the person who did the actual</p>	Annual Audit Report C Y 2013	This practice has been stopped and the COA recommendation implemented accordingly.	Fully implemented.

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<p>utilization of the funds may not immediately submit the liquidation documents for he is not the accountable officer on record.</p> <p>We recommended and management agreed to comply strictly the rules and regulations on the granting, utilization and liquidation of cash advances as set forth in COA Circular No. 97-002 to ensure the immediate and full settlement of all cash advances that maybe granted in any given year.</p>			
<p>7. The cash advances for payment of the per diem for Board Meetings were drawn in the name of the Chairman of the Board of Directors which is tantamount to allowing the official to perform disbursing function. This practice is a violation of Section 4.1.4 and 4.1.5 of COA Circular No. 97-002 dated February 10, 1997.</p> <p>We recommended and management agreed to stop the practice of granting the cash advance for BOD per diem to the Chairman of the Board to comply with Sections 4.1.4 and 4.1.5 of COA Circular No. 97-002.</p>	<p>Annual Audit Report CY 2013</p>	<p>The Water District has stopped the practice of drawing the check for BOD per diem under the name of the BOD Chairman. Checks for BOD per diem are now drawn as Cash Advance in the name of the Disbursing Officer.</p>	<p>Fully implemented.</p>
<p>8. The check for payment of the sale of various scrap items in the amount of P30,000 was accepted though it was issued as "Pay to the order of CASH" and without a verification if such check was an indorsed private check. Both conditions are violations of Section 77 of the Government Accounting and Auditing Manual (GAAM), Volume I. In fact, this occurrence is considered an indirect encashment of private checks from collections which is strictly prohibited under</p>	<p>Annual Audit Report CY 2013</p>	<p>The management acknowledged the lapse on the part of the cashier in accepting the check payment for the scrap materials</p> <p>The COA recommendation will be strictly implemented and adhered to.</p>	<p>Considered implemented since no similar case was noted from the sampled transaction in 2014.</p>

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<p>Section 67(3) of PD 1445.</p> <p>We recommended that Management instruct the Cashier A to accept checks for payment only when it is made payable to the agency or head of agency as required in Section 77 of GAAM, Volume I. We further recommended that she be instructed to stop the accommodation of private checks to comply with Section 67(3) of PD 1445 and prevent occurrence of dishonored checks.</p>			
<p>9. Lapses were noted in the controls over leave credits, as follows:</p> <ul style="list-style-type: none"> <li>Monetization of sick leave credits was allowed without any supporting document to justify the payment thereof which is required under Section 23 of the Omnibus Rules on Leave (Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292). Monetization of vacation leave credits was also allowed even if an employee did not have an accumulated fifteen (15) days of vacation leave balance at the time of monetization. This practice violates Section 22 of the above mentioned Omnibus Rules. Until corrected, this practice can overstate the budget for monetization of leave credits.</li> <li>The expected earned leave of 2.5 days (Vacation and Sick Leave) per month was posted in the leave cards every first day of the month at which time the employee is not yet entitled</li> </ul>	<p>Annual Audit Report CY 2013</p>	<p>Monetization of 50% of vacation/sick leave credits can be availed only by employees with earned vacation leave credits of 15 days or more.</p>	<p>Considered fully implemented.</p>

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<p>to said benefit since no service has been rendered. If not corrected, an erroneous leave balance may become the basis for monetization.</p> <ul style="list-style-type: none"> <li>There were instances when the leave balances reflected in the Application for Leave supporting the requests for monetization differed with the balance appearing in the Leave Card. Hence, if not corrected, the Water District might monetize a non-existing leave credit.</li> </ul> <p>We recommended that Management comply strictly the regulations on monetization of leave credits as contained in the Civil Service Commission (CSC) Omnibus Rules on Leave.</p> <p>We also recommended that Management instruct the Personnel Section to post all earned leaves at the end of each month when the related service requirements have been met by the employees. We likewise requested Management to direct a thorough review of the entries in the Leave Cards to prevent errors during monetization and/or payment of terminal leave.</p>			
<p>10. Properties owned by the Water District with an insurable value of P50.420 million are not insured with the General Insurance Fund of the Government Service Insurance System (GSIS) as required under R.A. No. 656 and reiterated in Administrative Order Nos. 33 and 141. Under this circumstance, the Water District is denied of adequate and reliable protection against any damage to, or loss of their properties</p>	<p>Annual Audit Report CY 2013</p>	<p>The insurance coverage of the administrative building includes contents. Thus, IT equipment (207), office furniture and fixtures (226) are adequately insured.</p> <p>As far as the Utility Plant in Service (UPIS) is concerned, management will have to verify with the</p>	<p>Not implemented. As in the previous year only the Buildings and Other Structures, Administrative Structures and Improvements (including contents) and the Land Transportation Equipment were</p>

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due to fire, earthquake and other risks from forces of nature.		GSIS is they will cover for the insurance of these assets.	insured with the GSIS.
<p>11. The government counterpart for the BODs contribution to the Provident Fund is without legal basis since Section 5.1.1 of DBM Budget Circular No. 2008-3 limits the membership to the Fund to only the incumbents of positions, whether permanent, casual or contractual in nature. Accordingly, the subject expense is considered an irregular expenditure.</p> <p>We recommended that management secure from the Department of Budget and Management (DBM) an authority to provide a government counterpart for the BODs contribution to the Provident Fund.</p> <p>If such authority will not be granted, direct the Provident Fund to return to the Water District the government shares remitted from CY 2009 up to the present. In the meantime, we recommended the suspension of this particular benefit.</p>	Triennium Audit Report C Ys 2010-2012	Carcar Water District no longer provides a government counterpart for the BODs contribution to the Provident Fund.	<p>Considered partially implemented as the government counterpart covering the period from January to December 2012 and January to March 2011 in the total amount of P108,596.25 has not been returned to the Water District.</p> <p>For issuance of Notice of Suspension.</p>
<p>12. The Board of Directors was granted in CY 2011 a Year-End Financial Assistance and Cash Gift without approval from the President as required under Section 8 (d) of Executive Order No. 24 dated February 10, 2011.</p> <p>We recommended that management require the concerned members of the Board of Directors to refund the Year-End Financial Assistance and Cash Gift granted in CY 2011.</p> <p>We further recommended that management strictly comply with the instructions contained in</p>	Triennium Audit Report C Ys 2010-2012	In 2014, BOD members were only paid per diems as authorized under EO No. 65.	<p>Considered not implemented since no refund has been made by the persons liable.</p> <p>For issuance of Notice of Disallowance.</p>

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Section 3 of Executive Order No. 65 dated January 2, 2012 when granting allowances and other benefits to the members of the Board of Directors.			
<p>13. The balance of the Land account in the amount of P2.748 million cannot as yet be fully relied upon for the following reasons:</p> <ul style="list-style-type: none"> <li>Eleven parcels of land with an approximate area of 1,239.50 square meters are still not titled in the name of CWD, a situation which exposes the Water District to possible adverse claims from third parties. Accordingly, the financial statement assertion on "rights and obligations" has not yet been fully established.</li> <li>Two parcels of donated land with an approximate area of 83.5 square meters are without recorded value.</li> <li>The land area of two parcels of land as contained in the Deeds of Donation differed with that stated in the Report of the Physical Count of Utility Plant In Service (UPIS) as of December 31, 2012.</li> <li>The physical inventory report carried an information that the land where the office building is located has an encumbrance but without clear explanation.</li> <li>The water district paid the Real Property Tax (RPT) of a parcel of land covered by Tax Declaration No. 36260 from 2008 up to the present even if</li> </ul>	Triennium Audit Report C Y s 2010-2012	The processing for the titling of lots is on-going.	<p>Considered partially implemented.</p> <p>Based on the latest Titling Status of CWD Real Properties, there are eleven (11) lots still for titling which have a combined recorded value of P519,302.00.</p> <p>Of the eleven lots, three parcels with an approximate area of 135.5 square meters are without recorded value which understates the Land account.</p> <p>The "land account" will be re-focused in 2015.</p>

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<p>the Deed of Sale of said property was not consummated. Said parcel of land cannot be traced to the books of accounts nor in the inventory report.</p> <p>For the above audit observations, we recommended and management agreed to implement the following courses of action:</p> <ul style="list-style-type: none"> <li>• Closely monitor the titling of the properties donated and/or purchased by the Water District. If needed, require the IRDO to submit a quarterly status report on the titling of CWD acquired lots to enable top management and the Board to consider other alternatives that will fast tract the titling process.</li> <li>• Seek assistance from the Office of the City Assessor for the valuation of lots without recorded value.</li> <li>• Direct the Industrial Relations Development Officer (IRDO), the person in charge of land titling, to review the documents pertaining to the lands acquired but with differences in land area as appearing in either the TD or in the Deed of Sale/Donation and the Saducas lot.</li> <li>• Update the remarks column in the Report of the Physical Count of Utility Plant In Service to either correct or expand the explanatory notes.</li> </ul>			

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<p>14. The expenses that were capitalized and treated as reforestation project do not qualify as an asset of the water district under paragraphs 49 (a), 89 and 90 of the Framework for the Preparation and Presentation of Financial Statements. Moreover, the expenses incurred by Barangay Guadalupe in the amount of P150,000 which formed part of the account balance are regular operating expenses of the Barangay and not for a watershed management program. Also, the financial of P150,000 was erroneously recorded as Advances to Officers and Employees.</p> <p>We recommended that management direct the Department Manager C – Finance to close the asset account, Reforestration by way of Prior Period Adjustments to Retained Earnings. Henceforth, we recommended strict compliance of the provisions on the recognition of assets as set forth in the Framework for the Preparation and Presentation of Financial Statements.</p> <p>Furthermore, we recommended that management require Barangay Guadalupe to replenish the P150,000 that was erroneously used by the Barangay so that the funds can be used for watershed management programs as agreed upon in the MOA.</p> <p>On the accounting aspect, we recommended the use of GL Account Code 125, Due from Local Government Units, for moneys transferred to local government units that are subject for liquidation.</p>	<p>Triennium Audit Report C Y s 2010-2012</p>	<p>The Water District is still coordinating with the officials of Barangay Guadalupe regarding the 2<sup>nd</sup> audit recommendation.</p>	<p>Considered partially implemented.</p>



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<p>15. Dormant items and abnormal balances are carried in certain asset and liability accounts, a condition which may mislead the users of the financial statements in their economic decisions. On the other hand, the balances appearing in the subsidiary ledgers for loans payable differed with those reflected in the amortization schedule by P223,185.54.</p>	<p>Triennium Audit Report CYs 2010-2012</p>	<p>The Department Manager B – Finance Services Department, when asked about the plans for the dormant accounts, stated that the management is yet to discuss the issue in a meeting with the General Manager and the CWD Board of Directors so as to lay out policies and actions for the said accounts. This matter will be presented to the Board with the proposal to initiate the process of writing off these accounts.</p> <p>As in their previous year's reply, management explained that all efforts have been exhausted to trace the supporting documents of these dormant accounts but to no avail. In part, this was due to the office transfers that Carcar Water District had undergone which resulted in the loss of some files.</p>	<p>Considered not implemented in so far as dormant accounts.</p> <p>The issue is reiterated in this report.</p>
<p>16. The disclosure requirement under Paragraph 73 of PAS 16 on Property, Plant and Equipment has not been complied with.</p> <p>We recommended and management agreed to comply with the disclosure requirements under PAS 16 in order to provide the users of the financial statements with adequate information for decision-making.</p>	<p>Triennium Audit Report CYs 2010-2012</p>	<p>As shown in the Notes to Financial Statements, management has already complied the basic requirements of PAS 16.</p>	<p>Considered implemented.</p>

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<p>17. The cash deposited for Debt Service Reserve and Operation and Maintenance Reserve is still very much below the requirement under the loan agreement with LWUA. This situation is not only an "event of default" under the loan contract but may also deprive the water district of adequate/ready cash resources for extraordinary repairs and replacement of facilities.</p> <p>We recommended and management agreed to secure from LWUA the signed contracts for the four loan availments to enable the water district to accurately allocate/deposit the cash for the reserve requirements.</p>	<p>Triennium Audit Report CYs 2010-2012</p>	<p>The Water District is depositing a minimal amount so that the account will not be considered dormant.</p> <p>As gathered, Carcar Water District has plans to have their LWUA loans re-financed by the Development Bank of the Philippines.</p>	<p>Considered partially implemented.</p>