



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. VII  
Cebu City

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**INDEPENDENT AUDITOR'S REPORT**

**The Board of Directors**

Carcar Water District  
Carcar City, Cebu

*Report on the Financial Statements*

Pursuant to 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 have audited the accompanying financial statements of Carcar Water District which comprise the statement of financial position as at December 31, 2014 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with State accounting principles generally accepted in the Philippines and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether, due to fraud or error.

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence, on a test basis, 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 following audit observations, which are discussed in detail in Part II and in brief in Part III of this report, affected the fair presentation of the financial statements:

1. The Accounts Receivable-Trade (A/R) and Metered (Water) Sales accounts were each overstated by P315,502.65 due to a system generated change of the previously recorded water sales of January 2014, which matter was not detected during the closing of the books of accounts. If not immediately resolved/corrected, this amount will add on to the unsubstantiated Accounts Receivable of previous years which still have a balance of P375,309.01 as of December 31, 2014, making the A/R balance not reliable.
2. The account balance of the Property, Plant and Equipment (PPE) still cannot be fully relied upon because the difference between the physical count and the combined Subsidiary Ledger (SL) balances of five major PPE sub-accounts increased by P3,370,580.68 or approximately 179.13% if compared with the difference of P188,159.93 in CY 2013. The difference, which has not been fully resolved at the time of audit, could either be errors in the recording of transactions by both the Accounting Division and the Supply Unit, differences in the valuation of certain items or in extreme case loss of properties.
3. The misstatement in the Construction in Progress account remained unresolved as the account still carried the costs of completed projects and transactions for adjustments which totaled P7.862 million or approximately 82.15% of the year-end balance of P9.571 million. The delay in the transfer of the completed projects which totaled P6.881 million to the appropriate PPE accounts has consequently misstated the balances of the Plant (UPIS) and Buildings and Structures accounts and their corresponding accumulated depreciation as well as the depreciation expense for the year. Hence, until corrected, this circumstance will repeatedly overstate the reported income at the end of the year.

4. Eleven parcels of land with an approximate area of 971.50 square meters and a recorded value of P519,302.00 are still not titled in the name of Carcar Water District, a situation which exposes the Water District to possible adverse claims from third parties. Furthermore, three of the above-mentioned eleven lots with an approximate area of 135.5 square meters are without recorded value which understates the Land account.
5. Abnormal and dormant balances, including one erroneous subsidiary account balance which was an outcome of the inappropriate accounting treatment of the covering transaction, still formed part of the year-end account balance of various asset and liability accounts, a condition which may mislead users of the financial statements in making sound economic decisions. This situation also suggests that the Finance Services Department has not regularly monitored the disposal of these cases that resulted in the carry-over of the above-mentioned balances in the next accounting period.

*Qualified Opinion*

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Carcar Water District as at December 31, 2014 and its financial performance and its cash flows for the period ended December 31, 2014 in accordance with generally accepted state accounting principles in the Philippines.

**COMMISSION ON AUDIT**

By:

  
**TERESITA N. COSCOS**  
Supervising Auditor 

April 30, 2014