



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

Corporate Government Sector
Cluster 3 - Public Utilities

METROPOLITAN WATERWORKS
& SEWERAGE SYSTEM
ADMINISTRATOR'S OFFICE

RECEIVED BY:
NAME: RLT
DATE: 8-11-15
4:16:09

11 August 2015

Mr. Gerardo A.I. Esquivel
Administrator
Metropolitan Waterworks & Sewerage System - Corporate Office
Balara, Quezon City

Dear Mr. Esquivel:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and operations of the Metropolitan Waterworks & Sewerage System for the year ended December 31, 2014.

We expressed a qualified opinion on the fairness of the presentation of the financial statements of the System due to the following:

1. The accuracy and existence of the two accounts, Land and Land Improvements, and Building & Structures with carrying value of P19.226 billion and P27.788 billion respectively, were not ascertained due to incomplete inventory taking required under Section 102 of PD 1445 and COA Circular 80-124.

Also included in the Building & Structures account was Other Structures with carrying value of P27.577 billion which was not accurately stated due to:

- a. Capitalizing borrowing costs incurred after the completion of the project with an aggregate cost of P269.68 million, inconsistent with PAS 23;
 - b. Recognizing depreciation charges only on the period the asset was reclassified to the PPE account and not when the asset was used as required under PAS 16, resulting in an understatement of P218.733 million; and
 - c. Inclusion of the cost of consultancy services for the feasibility study and preliminary design of Angat Water Utilization and Aqueduct Improvement Project (AWUAIP) Phase II incurred in CY 2005 in the amount to P18.50 Million, contrary to PAS 38.
2. Of the balance of Other Receivables at P5.832 billion, the amount of P5.110 billion or 88% were not recognized as liabilities by the Concessionaires including dormant account totaling P296.825 million; hence its collection was doubtful.

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3. For Accounts Receivable of P1.118 billion and P98 million representing amount collectible from Maynilad Water Services Inc. (MWSI) for penalties on delayed payment of concession fee, and of borrowing cost, respectively, the account, *Other Deferred Credits*, a liability account, was credited instead of the appropriate income account. This erroneous entry made in CY 2007 remained uncorrected as at December 31, 2014.
4. Dropping from the books of accounts of various land accounts totaling P267.207 million was not adequately documented to prove the validity thereof.

In addition to the above observations considered in the formulation of the auditor's opinion, we invite your attention to the following significant observations and recommendations that need immediate action as well:

MWSS Corporate Office

1. Among the foreign loans under the Long-Term Liabilities of MWSS was JBIC/OECF loan (Loan #PH110) of P1.275 billion for which no loan payment was remitted to the Bureau of Treasury despite the collections made from the Concessionaires amounting to P1.614 billion. This was attributed to the unresolved issue between MWSS and the Bureau of Treasury on whether the said is a liability of MWSS, or an equity of the Government to MWSS.

Recommendation:

Immediately remit to the Bureau of Treasury the amount collected from the Concessionaires as payment for the JBIC/OECF loan.

2. The Cash and cash equivalents in the amount of P2.212 billion remained insufficient to cover the Loans Payable to the Bureau of Treasury (BTr), and all recognized Trust Accounts, totaling P2.455 billion at year-end. The Cash and cash equivalents already include the amount of P1.924 billion representing collections from the Concessionaires for the payment of the said foreign loans.

Also, the collections for the payment of its foreign loans totaling P1.803 billion were not restricted.

Recommendations:

- a. *Enforce the immediate collection of receivables from MWSI to ensure the cash sufficiency; and*
 - b. *Require the Finance Department to set up in the books a separate account restricted for the collections received from the Concessionaires for the payment of foreign loans.*
3. As reported in previous years' audit reports, the reliability and accuracy of some accounts in the MWSS' Statement of Financial Position cannot be ascertained due to the unreconciled/unverified accounts in the net amount of P353.825 million.

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Recommendation:

Facilitate the immediate reconciliation of the unreconciled accounts shown in the Statement of Financial Position totaling P353.825 million; and likewise, duly support all reconciling entries with an analysis and detailed breakdown of the reclassification made, duly signed by the responsible accounting personnel.

4. The structural integrity of the Bigte-La Mesa Aqueduct Right of Way (ROW) traversing from Quezon City to Angat, Bulacan and composed of lands located above the water pipes and tunnel of MWSS covering an estimated length of 17 kilometers and a width of about 60 meters and the potability of the water sourced from the reservoirs were found compromised as portions of the Aqueduct ROW including its vicinity were occupied by residential houses and various business establishments and some portions were fenced by private individuals and with immovable improvements, thus resulting in the following:
 - Increasing the risks of contamination of the soil surrounding the facilities, which in turn, raises the risk of contamination of the water therein;
 - increasing the risks of leaks/breakages;
 - hindering the application of remedial measures in case of accidents; and
 - hampering efficient maintenance of the aqueduct by the concessionaire

Recommendations:

- a. *Cause the immediate relocation of the illegal settlers along the aqueduct right of way;*
- b. *Demolish the structures and improvements made along the MWSS Right of Way at owner's expense;*
- c. *Enforce collection of rental fees to serve as just compensation for the use of MWSS ROW by private entities or institute legal action for their use without prior consent or approval from the System;*
- d. *Enforce compliance by the MWSS-hired security services with the contract provision on the safeguarding of property; and implement the provision of Section G of the Terms of Reference of the contract on the corresponding penalty or damages, if any; and*
- e. *Investigate possible irregularities on the management of ROW and furnish this Office on the result of the investigation.*

MWSS Regulatory Office (RO)

1. The procurement of the legal experts as expert witnesses in connection with the arbitration cases between MWSS and the Concessionaires was not in accordance with Annex B of the IRR of RA 9184 and lacked compliance with the provisions of

Memorandum Circular No. 9 dated August 27, 1998 of the Office of the President, and COA Circular No. 86-255, as amended by COA Circular No. 95-011.

Likewise, payment of honoraria and reimbursable expenses to two expert witnesses totaling P946,179 were not supported with contracts required under COA Circular 2012-001 dated June 14, 2012 to establish validity of claim.

Recommendations:

- a. *Submit copy of the contract between MWSS and the expert witnesses;*
- b. *Comply with the pertinent provisions of Memorandum Circular No. 9 dated August 27, 1998 of the Office of the President, COA Circular 86-255, as amended by COA Circular No. 95-011; and*
- c. *Henceforth, strictly abide with the pertinent provision under Annex B of the IRR of RA 9184*

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 9, 2015 are discussed in detail in Part II of the report.

In a letter of even date, we requested the Corporation's Administrator and Chief Regulator to implement the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Teams, thus facilitating the submission of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


RUFINAS S. LAGUNDANO
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
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11 August 2015

The BOARD OF TRUSTEES
Metropolitan Waterworks & Sewerage System
Balara, Quezon City

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