

## EXECUTIVE SUMMARY

### A. Introduction

#### *Metropolitan Waterworks and Sewerage System (MWSS)*

1. Republic Act (R.A.) 6234 dated June 19, 1971 created MWSS to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes at just and equitable rates. Based on its original Charter, MWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Metro Manila, the entire province of Rizal and a portion of Cavite. R.A. 8041 or the National Water Crisis Act of 1995 and implemented by Executive Order No. 286 on December 6, 1995 and Executive Order No. 311 in March 20, 1996 allowed MWSS to enter into arrangements that will result in the involvement or participation of the private sector in any or all of the segments, operations and/or facilities of the MWSS.
2. On 21 February 1997, the retail distribution of water was privatized through the Concession Agreement entered into with Manila Water Company, Inc. (East Zone) and Maynilad Water Services, Inc. (West Zone).

#### *Scope and Objectives of Audit*

3. The audit was conducted to determine the (a) level of assurance that may be placed on the management's assertions on the financial statements; (b) the propriety of transactions as well compliance with existing rules and regulation as well as management's policies; and (c) the extent of the implementation of prior years' audit recommendations. A value-for-money audit was also conducted on the MWSS mandate on ensuring the structural integrity of the Bigte-La Mesa Aqueduct Right of Way (ROW) and the effective collection of income from raw water.
4. The audit covered the operation and accounts of the MWSS for CY 2014 and was conducted in accordance with the Philippine Standards on Auditing.

### B. Financial Highlights

#### Comparative Financial Position (In Million Pesos)

	2014	2013 (As restated)	Increase (Decrease)
Assets	58.463	53.028	5.435
Liabilities	13.131	15.824	(2.693)
Equity	45.332	37.204	8.128

#### Comparative Results of Operations (In Million Pesos)

	2014	2013 (As restated)	Increase (Decrease)
Income	2.399	2.810	(.411)

Expenses	1.834	1.793	.041
Net Profit from Operations	.565	1.017	(.452)
Gain (Loss) on Foreign Exchange	.144	(.243)	.387
Net Profit	.709	0.774	(.065)

MWSS paid dividend of P110 million on May 21, 2014 to the Bureau of Treasury pertaining to the partial payment of dividend for CY 2013. During the year, MWSS generated net profit from operation (before other income/expenses) of P565 million which is lower by P45 million or 45% than the previous year's restated net profit from operations.

### C. Auditor's Opinion

The Auditor rendered a Qualified Opinion on the fairness of presentation of the financial statements of MWSS for the year ended December 31, 2014 for the following reasons:

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.
  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.

#### **D. Summary of Other Significant Audit Observations and Recommendations**

Below is a summary of other significant audit observations and recommendation which are discussed in detail in Part II A and Part III of the Report.

##### ***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 MWSS 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.

*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*

**E. Summary of Total Suspensions, Disallowances and Charges issued**

Total Disallowances issued with pending appeal	MWSS Corporate Office	MWSS Regulatory Office
	P253,345,687.07	P129,928,546.90

**F. Status of Implementation of Prior Years' Audit Recommendations**

The MWSS Audit Group recognized the efforts of Management on fully implementing two prior years' audit recommendations resulting in the following :

1. Elimination of the unreconciled reciprocal accounts in the financial statements; and
2. Collection of the rental fee of P175 million inclusive of taxes from Manila Water Company, Inc. (MWCI for the use of the land in San Juan Reservoir and Aqueduct Complex in N. Domingo, San Juan City, Metro Manila from May 2006 to February 2015 and an initial annual lease of P16.200 million for its continued use commencing March 2015.

Of the 87 audit recommendations embodied in the CY2013 Annual Audit Report, 46 were implemented, 29 were partially implemented and 12 were not implemented. The audit recommendations not implemented were reiterated in Part II of this Report. Details were presented in the Status of Implementation of Prior Year's Audit Recommendations under Part III.