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

CORPORATE GOVERNMENT SECTOR
CLUSTER 3 – Public Utilities

May 30, 2016

RECEIVED
MAY 30 2016
BY: 4:30 pm
Board Secretariat Office

The Board of Trustees
Metropolitan Waterworks & Sewerage System
Balara, Quezon City

Ladies and Gentlemen:

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 transactions of the Metropolitan Waterworks and Sewerage System for the year ended December 31, 2015.

We expressed a disclaimer of opinion on the fairness of the presentation of the financial statements of the System because of the following:

1. The significant effect of the non-conduct of revaluation/appraisal of Property, Plant and Equipment (PPE) in CY 2015 required under Philippine Accounting Standard (PAS) 16 and COA Resolution 89-16 rendered unreliable the balance of Appraisal Capital Stock and the carrying value of PPE amounting P36.383 billion and P46.251 billion, respectively, at year-end, comprising 62 percent and 79 percent of total assets; as a result of which, necessary adjustments regarding several transactions recorded under PPE and Appraisal Capital Stock were not determined; and

2. Selective revaluation and partial reporting of amounts of the Land accounts recorded under PPE and Other Assets accounts in CYs 2014 and 2015 in the financial statements based on the CY 2010 Concessionaire's Asset Condition Report of the MWSS Regulatory Office rendered uncertain the accuracy of the Land account amounting to P20.504 billion as we were not able to determine the revalued amount of the Land.

The significant observations and recommendations that need immediate action are as follows:

1. The existence of building and other structures with carrying value of P26.106 billion reported in the physical inventory report was not ascertained due to lapses in the agency's asset management system and the absence of effective and efficient internal control on the verification of the physical existence of MWSS properties. (*Paragraph C.1)*

Recommendations:

a. *Inform this office on the actions taken on the result of the physical inventory-taking particularly on assets which could not be located;*

b. *Submit the documents set forth in the Concession Agreement duly acknowledged by the Concessionaires to establish accountability of the concessionaires over the turned-over assets:*

c. *Immediately conduct disposal thru auction or sale of the unserviceable properties to generate additional fund considering that the non-operating assets are subject to further deterioration and diminishing market value; and*

d. *Institute/Establish and maintain a reliable, efficient and cost-effective asset/property management system to ensure that government properties are safeguarded from deterioration and losses.*

2. The year-end balance of Other Receivables of P5.959 billion was unreliable owing to the inclusion of cost of borrowings of P4.334 billion dormant for more than 10 years and for which no legal proceedings was initiated by MWSS against its concessionaire. There were also receivables not confirmed by the concessionaires including the penalty on delayed remittance of Concession fee totalling P1.118 billion and Other Receivables in the amount of P181.075 million; and guarantee deposits of P120.480 million transferred to customer accounts of the concessionaires were also included in the account. (*Paragraph B.1.3*)

Recommendations:

a. *Look into the possibility of reclassifying the costs of borrowing of P4.334 billion to the appropriate expense accounts considering the pendency of the local arbitration proceedings for which the realization or collection of the subject claims is virtually uncertain;*

b. *Submit an updated report on the arbitration of the disputed claims with MWSI as reported in the AAPSI; and*

c. *Review and reconcile accounting records to:*

- *Account for and make necessary adjustments for Other Receivables representing the active customers for which guarantee deposits have been already transferred to the concessionaires; and*

- *Explain the discrepancies noted between the balance of Guarantee Deposits Payable against the amount of P40.100 million being claimed by MWSS representing residual accounts erroneously withheld by the concessionaires and provide justification on the recording of Guarantee Deposits Payable only during the MWSS privatization;*

d. *Review and reconcile discrepancies with the concessionaires for negatively confirmed accounts and initiate collection of valid receivables.*

3. Variances between the P3.674 billion balance of long-term liabilities account per MWSS' books and the confirmed balances from Bureau of the Treasury (BTr), National Housing Authority (NHA) and other foreign lending institutions aggregating P5.536 billion on the domestic and foreign loans increased to negative variance of P1.862 billion as at year-end, due to the continuous failure by Management to conduct reconciliation of accounts. (*Paragraph B.1.4*)

   Recommendations:

   a. *Examine and analyze the outstanding balance confirmed by NHA amounting to P5.630 million and effect the corresponding adjustments for the difference noted amounting to P93.165 million;*

   b. *Provide the BTr with the amortization schedule and the necessary documents to prove full payment of IBRD 2676 loan account since BTr confirmed an outstanding balance of P380.594 million; and*

   c. *Request for the verification of its accounts for JBIC/OECF, SPIAL, IBRD Nos. 1272 and 4019, ADB Loan Nos. 1150 and 1379, and Natixis Loan for the differences noted.*

4. Cash and cash equivalents in the amount of P2.685 billion, which included unrestricted collection in the amount of P1.701 billion from the Concessionaires for the payment of foreign loans, remained insufficient to cover the unpaid foreign loans already billed by the Bureau of Treasury and all recognized Trust Accounts, aggregating P2.798 billion. The variance significantly decreased from P243 million in CY 2014 to P113 million at year-end. (*Paragraph B.1.5*)

   Recommendations:

   a. *Efficiently monitor its cash flows to ensure that funds are disbursed solely for the intended purposes;*

   b. *Finally settle with the BTr the issue on JBIC loan;*

   c. *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; and*

   d. *Maintain separate bank account for cash collected from the Concessionaires for the payment of loans which have not been paid due to unresolved issues with the Bureau of Treasury.*

5. The inclusion in the Deferred Credits account of amounts totalling P1.729 billion for which no cash was received or expense incurred and erroneous credits for income already earned totalling P97.095 million renders the account balance of P1.827 billion not valid liabilities as defined under PAS/ IAS 37. (*Paragraph B.1.6*)

Recommendation:

Instruct the Finance Department to immediately analyze and review each of the subsidiary ledgers of the Other Deferred Credits account to ensure that only cash collections received in advance for services that are yet to be rendered are included in the Other Deferred Credits account at the end of each accounting period; and thereafter, prepare the necessary adjusting entries.

6. The collectability of Accounts Receivable consisting of receivables from water service customers covering the period from 1988 to 1996 (prior to MWSS' privatization in 1997), totaling P1.117 billion was considered nil, as the same had not been moving for five years. This represents 71 percent of total Accounts Receivable of P1.578 billion. (*Paragraph D.1*)

   Recommendations:

   a. *Review and evaluate whether there is still recoverable amount from the said accounts and enforce collection;*

   b. *Refer the matter to the MWSS Legal Department for legal action if needed; and*

   c. *Initiate the request for write off of the accounts to COA with proof that the amount could no longer be collected and the actions taken to enforce collection.*

MWSS Regulatory Office

1. The regular current bank account showed an idle cash balance of P317.40 million at the end of year earning minimal interest of P1.080 million per annum rather than investing it in high yielding investment in government securities as authorized under Section 2 of Administrative Order No. 173 and Section 17 of DOF Department Order No. 141-95, as amended. (*Paragraph A.2.1*)

   Recommendation:

   Consider investing its excess or idle cash balance in government issued securities offering high yielding interest rate pursuant to Section 2 of Administrative Order No. 173, Section 17 of DOF Department Order No. 141-95, as amended and Section 3.2.1 of DOF Circular No. 1-06.

2. Management's decision of allowing loan payment at the debtor's discretion and not on the agreed monthly amortization resulted in the low collection efficiency of the Due from Officers (123) and Employees and Loans Receivables – Others accounts totalling P43.220 million at year-end. In addition, the P25 million seed money granted to MWSS Multi-Purpose Cooperative remained uncollected. (*Paragraph B.3.1)*

Recommendations:

a. *Reconsider its decision allowing the payment of loans at debtor's discretion. Instead, enforce collection of monthly amortization such that the loans are fully paid within the period stipulated in the contract; and*

b. *Take immediate legal action to recover from the MWSS Multi-Purpose Cooperative the P25 million seed money.*

The other audit observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff of the Regulatory Office (RO) and the Corporate Office (CO) during exit conferences conducted on April 18, 2016 and April 25, 2016 respectively, are discussed in detail in Part II of the report.

In a letter of even date, we requested the Administrator, MWSS CO and the Chief Regulator, MWSS RO, to implement the recommendations contained in the report and to inform this office of the actions taken thereon within 60 days from 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:

RUFINA S. LAQUINDANUM
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
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CORPORATE GOVERNMENT SECTOR
CLUSTER 3 – Public Utilities

METROPOLITAN WATERWORKS
& SEWERAGE SYSTEM
ADMINISTRATOR'S OFFICE
RECEIVED BY:
NAME: Sel
DATE: 30 MAY 2016
4:26 P.M.

May 30, 2016

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 transactions of the Metropolitan Waterworks and Sewerage System for the year ended December 31, 2015.

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Recommendations:

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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 exit conference conducted on April 25, 2016 are discussed in detail in Part II of the report.

We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days upon receipt hereof.

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

Very truly yours,

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CORPORATE GOVERNMENT SECTOR
CLUSTER 3 – Public Utilities

MWSS Regulatory Office
OFFICE OF THE CHIEF REGULATOR
RECEIVED
By: UNA
Date: 05-30-16
Time: 430 pm

May 30, 2016

Mr. Joel C. Yu
Chief Regulator
Metropolitan Waterworks & Sewerage System – Regulatory Office
Balara, Quezon City

Dear Mr. Yu:

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Recommendation:

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