

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 on 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 preservation of the Retained Assets of MWSS and the effective collection of income from raw water.
4. The audit covered the operation and accounts of the MWSS for CY 2015 and was conducted in accordance with the Philippine Standards on Auditing.

B. Financial Highlights

Financial Position (In Million Pesos)

| | 2015 | 2014 (As restated) | Increase (Decrease) |
|-------------|--------|-----------------------|------------------------|
| Assets | 58.180 | 57.969 | 0.211 |
| Liabilities | 13.224 | 13.595 | (0.371) |
| Equity | 44.956 | 44.374 | 0.582 |

Results of Operations (In Million Pesos)

| | 2015 | 2014 (As restated) | Increase (Decrease) |
|----------|-------|-----------------------|------------------------|
| Income | 2.630 | 2.552 | 0.078 |
| Expenses | 1.906 | 2.027 | (0.121) |

| | | | |
|---------------------------------|---------|-------|---------|
| Net income from Operations | 0.724 | 0.525 | 0.199 |
| Gain (Loss) on Foreign Exchange | (0.504) | 0.144 | (0.648) |
| Net Income | 0.220 | 0.669 | (0.449) |

During the year, MWSS generated net income from operations, before gain (loss) on foreign exchange, of P724 million higher by P199 million or 38 percent than the previous year's restated net income.

MWSS paid dividend of P508.608 million in CY 2015 to the Bureau of Treasury pertaining to the dividend for CYs 2013 and 2014.

C. Auditor's Opinion

The Auditor rendered a disclaimer of opinion on the fairness of presentation of the financial statements of MWSS for the year ended December 31, 2015 for the following reasons:

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

D. Summary of Other Significant Audit Observations and Recommendations

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

MWSS Corporate Office

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

already earned totalling P97.095 million rendered 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 adjustment in the books.

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 (RO)

7. 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.

8. 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.*

E. Summary of Total Suspensions, Disallowances and Charges issued

| Status | No. of NDs | MWSS – Corporate Office | MWSS – Regulatory Office |
|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------------------|---------------------------------|
| With CGS Cluster Decision | 42 | 149,499,156.72 | |
| With COA Decision; Petition for review filed before the Commission Proper | 53 | | 103,400,601.46 |
| With Notice of Disallowance (ND) issued by Fraud Audit Office (FAO), Special Services Sector, COA; Appeals filed are pending at the FAO | 1 | 60,483,592.40 | |
| COA Decision Final and Executory – with NFD/COE issued | 12 | 14,373,371.91 | |
| With Appeal with the Cluster Director | 36 | 52,917,576.20 | 28,405,081.90 |
| Within Appeal Period | 7 | 4,902,876.09 | 543,836.41 |
| TOTAL | 151 | 282,176,573.32 | 132,349,519.77 |

F. Status of Implementation of Prior Years’ Audit Recommendations

Of the 113 audit recommendations embodied in the CY2014 Annual Audit Report, 25 were fully implemented, 9 were partially implemented and 79 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.