

## 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 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-Corporate Office's contractual obligation over the operation and management of the Umiray Facilities and on the payment of security services rendered by the contracted security agency, Catalina Security Services, Inc.
4. The audit covered the operation and accounts of the MWSS for CY 2017 and was conducted in accordance with the International Standards of Supreme Audit Institutions.

### B. Financial Highlights

#### Financial Position (In Billion Pesos)

	2017	2016 As Restated	Increase (Decrease)
Assets	57.789	58.172	(0.383)
Liabilities	12.555	13.170	(0.615)
Equity	45.234	45.002	0.232

#### Results of Operations (In Billion Pesos)

	2017	2016 As Restated	Increase (Decrease)
Income	2.473	2.838	(0.365)
Expenses	1.575	1.862	(0.287)
Net income from Operations	0.898	0.976	(0.078)
Losses, net	0.100	0.510	(0.410)
Net Income	0.798	0.466	0.332

During the year, MWSS generated net income from operations, before gain (loss) on disposed assets and foreign exchange, of P0.898 billion lower by P.078 billion or 8 percent than the previous year's restated net income.

MWSS paid dividend of P233 million in CY 2017 to the Bureau of the Treasury pertaining to the full payment of dividend for CY 2016.

### **C. Auditor's Opinion**

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements for the year ended December 31, 2017 due to the material impact of MWSS' non-adoption of Philippine Public Sector Accounting Standards (PPSAS) as its financial reporting framework. The financial statements of the MWSS are materially misstated due to the following:

1. Recognition of the Appraisal Capital Stock with year-end balance of P28.428 billion due to revaluation of the MWSS properties in prior years and realization of Appraisal Capital Stock to Retained Earnings totaling P7.955 billion;
2. The reported year-end balance of the Other Receivables account amounting to P5.611 billion was unreliable due to the inclusion of disputed claims by MWSI consisting of borrowing cost amounting to P4.048 billion despite its uncertainty of collection; and
3. Turned-over MWSS properties to the two Concessionaires amounting to P67.280 billion per Inventory Report, upon privatization in CY 1997, were not reclassified as Service Concession Assets. Further, subsequent construction, development, acquisition, and upgrade of the service concession assets were not accounted for in the books.
4. The existence of unreconciled/unverified, abnormal/negative and dormant balances totaling P1.788 billion affects the reliability and accuracy of total asset and liability account balances contrary to Sections 111 and 114(2) of PD No. 1445.

### **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. Material variance of P1.924 billion existed between the book balances of domestic and foreign loans payable and the confirmed balance by the Bureau of the Treasury (BTr).

The issue on the JBIC/OECF loan as a grant/equity from the National Government remained unresolved resulting to non-remittance to the BTr of the accumulated P2.014 billion collections from the two Concessionaires for the payment of the aforementioned loan.

#### *Recommendations:*

- a. *Require the Finance Department to reconcile the variances/discrepancies in the Loans Payable account with the BTr to present fairly the financial position of the agency and provide explanation on the non-repayment of IBRD 1272; and*

- b. Set a definite period to settle/reconcile with the BTr on the issue of the JBIC/OECF loan and if found that it is indeed a loan, remit immediately to the BTr the amount collected from the Concessionaires as payment for the loan; and*
2. Unreconciled net variance of P1.002 billion on Property, Plant and Equipment – General Administrative Equipment (PPE-GAE) and P776.271 million on Land and Land Rights between the records of Accounting and Property Management Departments.

*Recommendation:*

*Reconcile the noted variances between the records of Accounting and Property Management Departments in accordance with COA Circular No. 80-124 and effect necessary adjustments.*

3. The Advances to Contractors account year-end balance totaling P851.809 million, P278.402 million (net) or 33 percent remained unrecouped/outstanding for more than four (4) years which deprived MWSS of additional funds for operation, contrary to Section 5.3 Annex E, RIRR of RA 9184.

*Recommendations:*

- a. Analyze the advances to contractors account and determine the causes of the negative balances, and effect the necessary adjustments to reflect the correct and accurate book balances;*
  - b. Initiate legal action against the contractors to recoup the advances; and*
  - c. Blacklist the contractors who have outstanding advances from MWSS.*

### **MWSS Regulatory Office**

4. Notices of Disallowance with issued Notice of Finality of Decision (NFD) amounting to P78,508,955.76 was not recorded in the books as of year-end, contrary to Section 22.6 of COA Circular No. 2009-006, dated September 15, 2009 re: Rules and Regulations on Settlement of Accounts (RRSA).

*Recommendations:*

- a. Record as Receivables the amount of P78,508,955.76 as of December 31, 2017; and*
  - b. Cause the immediate settlement and payment of the disallowances by persons found liable pursuant to Sections 7.1.1 and 7.1.3, Chapter II, of the RRSA.*
5. Loans amounting to P25.000 million granted to MWSS-RO Multi-Purpose Cooperative for land development and house construction remained with the Cooperative in spite the non-realization/accomplishment of the project, has incomplete documentation and failed the public purpose test as required under Sections 4 (6) and 4 (2) of PD 1445.

*Recommendation:*

*Take legal action against the MWSS–RO Multi-Purpose Cooperative to collect or ensure the refund of the seed money including all accruing interest from CY 2005 up to the present.*

6. Receivables totaling P1.091 million from separated/retired officers/employees representing Motor Vehicle Loans remained outstanding for more than 10 years, contrary to the Loan Contracts.

*Recommendation:*

*Take the appropriate legal action to recover the unpaid receivables from the separated/retired employees in order to protect its interest and more importantly recover public funds.*

7. Loan amortization arrears totaling P0.544 million from six (6) former employees with receivable balance of P2.542 million as of year-end have not been collected, in violation of the provision of the Loan Contract, thus depriving MWSS-RO of funds which can be used for other public purposes.

*Recommendations:*

- a. *Take legal action to immediately collect the P544,261.10 arrears or the entire loan balance consistent with the loan contract and revisit its policy on any accommodation or arrangements in the payment amortizations thru post-dated checks; and*
- b. *Require the immediate settlement of all loans from resigning employees to avoid exposure of the agency from absconding employees, as in these instant cases.*

8. MPLP Loan amortization (Housing and Car Loan) of 21 current employees amounted to P17,500.00 for CY 2017 or a measly .002% of the total amount due of P7,394,947.91, grossly disproportionate collection rate compared to their capacity to pay resulting to arrearages without interest or penalties, contrary to the provisions of the Loan Contract and to the detriment of public interest.

*Recommendations:*

- a. *Re-evaluate/revisit the paying capacity of concerned employees vis-a-vis their actual net pay to date so that loans are fully paid within the period stipulated in the contracts; and*
- b. *Invoke the Deed of Assignment in case of Motor Vehicle loan defaults where the MWSS-RO is authorized to collect the proceeds from the employees' salaries, bonuses, insurance, benefits and other emoluments to ensure the full payment of the loan.*

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

Status	MWSS – Corporate Office	MWSS – Regulatory Office
Notice of Disallowances which are final and executory	P13,369,520.31	P91,963,268.95
Audit Disallowances/Charges with Pending Appeal with the Cluster 3/ Commission Proper or Without Appeal Received but Appeal Period has not yet Expired	330,014,333.03	114,255,503.36

Status	MWSS – Corporate Office	MWSS – Regulatory Office
<b>Total</b>	<b>P343,383,853.34</b>	<b>P206,218,772.31</b>

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

Out of the 115 audit recommendations embodied in CY 2016 Annual Audit Report, 16 were implemented, 24 were partially implemented and 75 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.