

## 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, the 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. No. 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 the 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 February 21, 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.
4. The audit covered the operation and accounts of the MWSS for CY 2018 and was conducted in accordance with the International Standards of Supreme Audit Institutions.

### B. Financial Highlights

#### Financial Position

	2018	2017 As Restated	Increase (Decrease)
Assets	56,517,277,660	57,867,007,908	(1,349,730,248)
Liabilities	(11,598,182,421)	(12,555,366,481)	(957,184,060)
Equity	44,919,095,239	45,311,641,427	(392,546,188)

#### Results of Operations

	2018	2017 As Restated	Increase (Decrease)
Revenue	2,652,215,455	2,471,518,967	180,696,488
Current Operating Expenses	(1,684,960,395)	(1,570,931,136)	114,029,259
Surplus from Current Operations	967,255,060	900,587,831	66,667,229
Other Non-Operating Income	1,230,102	1,546,067	(315,965)
Gains	1,192,371	0	1,192,371
Losses	(454,721,791)	(100,276,148)	354,445,643
Income Tax Expense	(6,477,687)	(6,821,254)	(343,567)
Net Surplus	508,478,055	795,036,496	(286,558,441)

During the year, the MWSS generated net income from operations, before gain (loss) on disposed assets and foreign exchange, of P968 million higher by P66 million or 7.4 per cent than the previous year's restated net income.

The MWSS paid dividends of P611.074 million in CY 2018 to the Bureau of the Treasury pertaining to the full payment of dividends for CYs 2015 and 2017.

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

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the MWSS for the year ended December 31, 2018 because:

1. The validity and accuracy of the Property, Plant and Equipment (PPE) with net book value of P45.533 billion were doubtful due to various deficiencies noted totaling P14.852 billion or 32.6 per cent of the total PPE thus, not in conformity with the Conceptual Framework.
2. The year-end balance of the Other Receivable account of P5.618 billion was not reliable due to inclusion of P4.175 billion or 74 per cent of which are: (a) disputed claims by MWSI consisting of borrowing cost amounting to P4.048 billion which is uncertain of collection and (b) guarantee deposits of active customers already transferred to MWSI and MWCI amounting to P64.799 million and P62.308 million, respectively.
3. The reported year-end balance of Other Assets account totaling P1.920 billion was doubtful affecting fair presentation of the financial statements in accordance with Paragraph 27 of PPSAS 1, to wit: (a) undocumented garnished, dormant and unreconciled accounts totaling P1.205 billion; (b) idle lands valued at P593.706 million are still recorded under Other Asset accounts instead of the appropriate Investment Property Account at cost; (c) asbestos cement pipes disposed in CY 2014 remained in the books with carrying value of P82.634 million; and (d) various non-operational assets amounting to P38.816 million which remained undisposed for more than 10 years were no longer monitored by the Asset Management Department, thus, physical existence is questionable.
4. The accuracy of various assets and liabilities cannot be ascertained due to inclusion of unreconciled/unverified accounts totaling P574.475 million and P884.548 million, respectively.

### **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 service concession assets provided by the Concessionaires and all upgrades to the service concession assets provided by the MWSS were not accounted in the books contrary to PPSAS 32, thus, do not reflect the correct balance of the assets, liability and revenue accounts.

*Recommendations:*

- a. *Validate the existence and propriety of the recorded service concession assets provided by the Concessionaires and subsequent costs and validate the existence and propriety of the recorded subsequent cost incurred for the upgrade of all service concession assets, and recognize the same in the MWSS books under the cost model; and*
  - b. *Recognize the corresponding liability and revenue under the Grant of Right to the Operator Model.*
2. Notices of Disallowances with issued Notices of Finality of Decision aggregating P82.506 million were 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).

*Recommendation:*

*Require the Finance Department to recognize the disallowances that have become final and executory as Receivables-Disallowances totaling P82.506 million.*

3. Other Deferred Credits to Income totaling P324.799 million were not valid obligations as these are credits (a) with no actual collections received and (b) already earned or realized, contrary to the definition of liabilities under Paragraph 7 of PPSAS 1.

*Recommendations:*

- a. *Ensure that the amount recorded in the Other Deferred Credits account pertains only to cash collections received in advance and have not yet been earned or realized within the year, otherwise, adjust as necessary;*
- b. *Identify the remaining book value of the disposed scrap materials, G.I. pipes and unserviceable assets to reflect the correct balance of the related asset, gain/loss on disposal and Other Deferred Credits;*
- c. *Recognize as income the liquidated damages of P25,705.26 received from ADB Industry PTE Ltd under JEV-2007-07-010223 and the advance collection for rent of P333,067.16 that were already earned or realized in the prior and current year, as deemed appropriate; and*
- d. *Determine who among the 138 payors actually availed of the housing project in order to reduce the undistributed collections totaling P13.019 million under the Deferred Credits account, to adjust to its proper account.*

**MWSS Regulatory Office**

4. The agreed-upon contract timeline was not strictly complied by the consultants, resulting to the overall delay in completion of the contract. Also, liquidated damages for delay totaling P1.037 million as provided for in Clause 54 of the General Conditions of the Contract RO-CS2017-01, were not deducted from the contract payments made.

*Recommendations:*

- a. *Require TCI to refund the liquidated damages amounting to P1.037 million or deduct the amount from future contract payments to be made to the Consultants; and*
  - b. *Compute and deduct from the contract price any further liquidated damages resulting from the Consultant's delays in the fulfillment of the remaining deliverables/milestones that should have been completed on October 31, 2018.*
5. Management failed to exercise due diligence in the verification of reimbursable expenses claimed by the Consultants, resulting in excessive and unnecessary expenditures totaling P52,932.39, as stated under Clause 49 of the General Conditions of the Contract.

*Recommendations:*

- a. *Exercise due diligence in the audit of all receipts and supporting documents submitted by the Consultants to prevent payment of Irregular, Unnecessary, Excessive, Extravagant, and Unconscionable expenditures; and*
  - b. *Require the Consultants to refund the amount of P52,932.39 or deduct the amount from the Consultants' subsequent billings. Also, submit documents/official receipt of the refund.*
6. Reimbursement of Expenses amounting to P330,979.04, were billed by TCI beyond one month since it was incurred, contrary to Item 8.2 of the Terms of Reference of the Contract.

*Recommendation:*

*Comply with the provisions of the Contract and disallow the reimbursement of expenses beyond the month of its actual incurrence.*

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

<b>Status</b>	<b>MWSS – Corporate Office</b>	<b>MWSS – Regulatory Office</b>
Notice of Disallowances which are final and executory	27,473,309.31	91,963,268.95
Audit Disallowances with Pending Appeal with the Cluster 3/Commission Proper/Supreme Court or Without Appeal Received but Appeal Period has not yet Expired	303,452,034.56	157,564,016.78
<b>Total</b>	<b>327,925,343.87</b>	<b>249,527,285.73</b>

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

Out of the 128 audit recommendations embodied in CY 2017 Annual Audit Report, 39 were fully implemented, 14 were partially implemented and 75 were not implemented. Details are presented in the Status of Implementation of Prior Year's Audit Recommendations under Part III of this Report.