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

Corporate Government Sector
Cluster 3 – Public Utilities

August 26, 2020

LTGEN EMMANUEL B. SALAMAT (Ret.)
Administrator
Metropolitan Waterworks and Sewerage System
489 Katipunan Avenue,
Balara, Quezon City



Dear **Administrator Salamat:**

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 (MWSS)** for the years ended December 31, 2019 and 2018.

The report consists of three parts: I – the Independent Auditor’s Report and the Audited Financial Statements, II – the Audit Observations and Recommendations, and III – the Status of Implementation of Prior Years’ Audit Recommendations.

The Auditor rendered an adverse opinion on the fairness of presentation of the consolidated financial statements of MWSS due to the following:

1. A total of P156.884 billion in assets and its upgrades provided by the Concessionaires under the concession agreements with the MWSS were not recognized in the MWSS books, contrary to IPSAS 32 – Service Concession Arrangements: Grantor, thereby, understating the assets, liability and revenue accounts;
2. Also, the validity and accuracy of the Property, Plant and Equipment (PPE) account balance of P46.094 billion remained doubtful due to the: (a) absence of proof of ownership over the 175 land assets totaling 3,784,012.70 sq. m. with net book value of P4.912 billion and unrecorded 23 land titles; (b) Improperly recorded transactions totaling P1.013 billion; (c) unreconciled net variance of P3.247 billion on Land, Office Building and Other Structures between the records of Finance Department and Inventory Report of the Asset Management Department; and (d) inexistent, dilapidated, non-operational and/or abandoned various Office Building and Other Structures totaling P5.117 billion, hence, contrary to paragraph 27 of IPSAS 1 – Presentation of Financial Statements;
3. Moreover, the Other Assets account balance of P724.425 million is not reliable due to absence of objective evidence of existence as evident in the: (a) undocumented garnished, dormant and unreconciled accounts totaling P685.609 million; and (b) unmonitored and undisposed non-operational assets amounting to P38.816 million, thus, contrary to the qualitative characteristic of faithful representation provided in paragraph 27 of the IPSAS 1 – Presentation of Financial Statements.

4. Further, the incomplete reconciliation and unavailability of documents to support the beginning balances of various assets and liabilities accounts amounting to P574.475 million and P884.548 million, respectively, rendered the balances of the affected accounts doubtful, contrary to the qualitative characteristics of financial reporting on reliability and faithful representation, in accordance with the IPSAS 1 – Presentation of Financial Statements; and
5. Furthermore, the lapses in the monitoring and conduct of periodic reconciliation of short-term investments/time deposits accounts resulted in a discrepancy of P310.098 million between the bank confirmed balance and the book balance as of December 31, 2019. Also, the subsidiary ledgers were not maintained for ten time deposit accounts totaling P947.818 million. These cast doubt on the accuracy of the balance per books, and are contrary to paragraph 27 of IPSAS 1 – Presentation of Financial Statements, and runs counter to sound internal control.

For the above-mentioned observations which caused the issuance of an adverse opinion, we recommended that Management:

1. a) Account the service concession assets provided by the Concessionaires and subsequent costs 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. a) On the land property titles: (i) Secure the land titles of the 175 land assets to support the MWSS claims of ownership over the lands recorded in the books; (ii) Evaluate the unrecorded 23 land titles whether these should be included in the Inventory Report and taken up in the books of accounts; and (iii) Ensure proper safekeeping of the land titles;
- b) Effect the necessary reclassification entries on the following: (i) Land reported as not-in-service recorded in the accounting books as PPE-Land to the appropriate Investment Property account pursuant to IPSAS 16 – Investment Property and (ii) The cost of completed projects from CIP account to the appropriate PPE accounts duly supported with Certificate of Completion and Acceptance and the depreciation computed from the year of the project completion; and
- c) Comply with the following: (i) Provide a specific status on the properties reported as not-in-service and abandoned together with a Management plan for the utilization of these properties; and (ii) Account for the various items of PPE which cannot be located/missing.
3. a) Analyze the composition of all garnished, dormant and unreconciled assets totaling P685.609 million based on the available data /records and to submit the details/schedules and other supporting documents;
- b) Submit schedule and status of the physical existence of the various non-operational assets amounting P38.816 million which remain undisposed for more than 10 years; and
- c) Conduct regular monitoring of these non-operational assets and prepare the necessary monitoring report thereon.
4. a) Conduct continuous and regular reconciliation of the unreconciled/unverified accounts to establish the accuracy of the affected account balances; and
- b) Provide the details/schedule and other supporting documents relating thereto.

5. a) Conduct regular monitoring and/or periodic reconciliation of cash and cash equivalents to reflect the correct book balance;
- b) Investigate/analyze the discrepancy between the balance per bank as against the book balance and effect the necessary adjustment(s) for the LBP and PNB accounts amounting to P654,399.62 and P488,502.91, respectively;
- c) Prepare regularly the Bank Reconciliation Statement of all cash and cash equivalents accounts; and
- d) Maintain and update regularly the subsidiary ledgers of the ten LBP time deposit accounts to support the detailed balances in the general ledger and to have an available data for decision-making purposes.

In addition, the other significant audit observations and recommendations that need immediate action are the following:

1. The expropriation of lots particularly for the right of way affected by the Kaliwa Dam Project is still pending, hence considered a ground for the termination of the contract under Section 17.6 of the Revised Implementing Rules and Regulations of Republic Act No. 9184, also known as the Government Procurement Reform Law.

Recommendations:

- a. Expedite the application and processing of existing and pending right of way acquisitions in accordance with RA 10752 as stated in the Board Resolution No. 2019-181-CO;
 - b. Compel the Engineering and Technical Operations Group to coordinate with the Legal Department on the status of the project accomplishment in relation to their participation in the expropriation of right of way; and
 - c. Submit the complete inventory of the lots or parcel of land to be utilized in the project, including areas of the affected ICCs and IPs territories and the information regarding the status of the expropriation proceeding of private lots already commenced which are to be used or utilized in the construction of the Kaliwa dam, the conveyance tunnel, access roads and housing camps in the project areas to the Project Management Office.
2. The MWSS already paid the Management Fees amounting to P32.446 million and availed drawdown from the Loan Facility without compliance with the specific contractual provisions and legal requirements set under the Preferential Buyer's Credit Loan Agreement, thereby, depriving the MWSS to use in its operations the funds advanced from the time it was released until the actual effectivity of the Loan Agreement.

Recommendation:

Make representation with the EximBank of China to recover the Management Fee of P32.446 million which is considered as advance payment since the Loan Agreement is not yet effective.

The foregoing and 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 the exit conference conducted on July 8, 2020, are discussed in detail in Parts II and III of the report.

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken by accomplishing the Agency Action Plan and Status of Implementation (AAPSI) form (copy attached) together with

documents that will support Management's implementation and return the AAPSI to us within 60 days from the date of receipt hereof.

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

Very truly yours,

COMMISSION ON AUDIT

By:


MA. LYDIA F. DE JOYA
Officer-in-Charge

Copy Furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
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
The UP Law Center
The National Library

METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
 489 Katipunan Avenue, Balara, Quezon City

AGENCY ACTION PLAN and STATUS of IMPLEMENTATION
 Audit Observations and Recommendations
 For the Calendar Years 2019 and 2018¹
 As of _____

Ref	Audit Observation	Audit Recommendation	Agency Action Plan				Status of Implementation ²	Reasons for Partial/Delay/Non-implementation, if applicable	Action Taken/Actions to be Taken
			Action Plan	Person/ Department Responsible	Target Implementation Date				
		From			To				

Prepared by: _____

Reviewed by: _____

Noted by: _____

¹For partially and not implemented audit recommendations for 2018
²Note: Status of implementation may either be (a) Fully Implemented (b) Ongoing (c) Not Implemented (d) Partially Implemented or (e) Delayed.