

## 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 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 (CA) entered into with Manila Water Company, Inc. (East Zone) and Maynilad Water Services, Inc. (West Zone) while on January 15, 2016, the Luzon Clean Water Development Corporation entered into a CA with MWSS for the Bulacan Bulk Water Supply Project (Province of Bulacan).
3. Currently, the Chairman of the MWSS Board of Trustees is PDDG Reynaldo V. Velasco (Ret.), the Administrator of MWSS Corporate Office is LTGEN Emmanuel B. Salamat (Ret.) and the Chief Regulator of the MWSS Regulatory Office is Atty. Patrick Lester N. Ty.

#### *Scope and Objectives of Audit*

4. 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.
5. The audit covered the operation and accounts of the MWSS for CY 2019 and was conducted in accordance with the International Standards of Supreme Audit Institutions.

### B. Financial Highlights

#### Financial Position

	2019	2018 As Restated	Increase (Decrease)
Assets	58,559,306,205	56,517,214,784	2,042,091,421
Liabilities	(11,195,251,193)	(11,598,762,568)	(403,511,375)
Equity	47,364,055,012	44,918,452,216	2,445,602,796

### Results of Operations

	2019	2018 As Restated	Increase (Decrease)
Revenue	4,180,994,412	2,652,215,455	1,528,778,957
Current Operating Expenses	(1,617,452,879)	(1,685,538,585)	(68,085,706)
Surplus from Current Operations	2,563,541,533	966,676,870	1,596,864,663
Other Non-Operating Income	92,800,986	1,230,102	91,570,884
Gains	294,423,192	1,192,371	293,230,821
Losses	(17,878,619)	(454,721,791)	(436,843,172)
Income Tax Expense	(11,983,161)	(6,477,687)	5,505,474
Net Surplus	2,920,903,931	507,899,865	2,413,004,066

The increase in total assets pertains to the increase in the balance of *Cash and Cash Equivalents* amounting to P1.287 billion for the collection from Concessionaires representing payment for the JBIC-110 PH that will mature and be remitted to the Bureau of Treasury on February 2020; and increase in the *Construction in Progress* amounting to P1.588 billion relative to the continuing project implementation of the Angat Water Transmission Improvement Project (AWTIP).

Further, the material increase in Revenue amounting to P1.529 billion was mainly due to the concession fees received from the Concessionaires that are intended for MWSS loan amortization and payments to contractors/suppliers; while the movement in the Gains and Losses were mainly due to the decrease of the foreign exchange conversion rate from CY 2018 to 2019 resulting in a balance of Gain on Foreign exchange amounting to P294.423 million.

#### C. Auditor's Opinion

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the MWSS for the years ended December 31, 2019 and 2018 due to:

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: (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.

#### **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 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 the Republic Act 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.

### ***MWSS Regulatory Office***

3. Consultancy service contracts entered into by MWSS-RO totaling P88.192 million were for the conduct of regular functions of the MWSS-Regulatory Office contrary to COA-CSC-DBM Joint Circular No. 1 s. 2017 dated June 15, 2017 despite the existence of knowledge transfers from past similar consultancy service engagements as provided by Section 4.4, Annex H, of the IRR of RA 9184, resulting in excessive consultancy expenses and uneconomical operations of the Agency.

Recommendations:

- a. Ensure to maximize the functions of the financial and technical regulation areas, and utilize the previous reports of the consultants in the conduct of future rate rebasing exercises, validation of asset condition report, and regulatory financial audit; and
  - b. Analyze the manpower requirements that will conduct its regular functions and consider it in its reorganization.
4. The advances to UP National Engineering Center (UP-NEC) in the amount of P4.925 million as at year end for the Public Assessment of Water Services Project (PAWS) remained unliquidated despite the project completion in CY 2011 resulting in the overstatement in assets and retained earnings account.

Recommendation:

Set a definite plan of action as to the settlement of the unliquidated cash advance considering the nine years that lapsed since the completion of the project.

#### **E. Summary of Audit Suspensions, Disallowances and Charges**

As of December 31, 2019, although there were no unsettled suspension nor charges, the total unsettled disallowances of MWSS-Corporate Office and MWSS-Regulatory Office amounted to P359.512 million and P249.688 million, respectively. Details are shown in Part II of this Report.

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

Out of the 154 audit recommendations, 26 were fully implemented, 19 were partially implemented and 109 were not implemented. 65 of which were from CY 2018 and 89 were from CY 2017 and earlier. In Part II of this report, 25 were reiterated while 3 were issued with Notice of Disallowance. The details are presented in the Status of Implementation of Prior Years' Audit Recommendations under Part III of this Report.