



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines  
CORPORATE GOVERNMENT SECTOR  
Cluster 3 – Public Utilities

August 26, 2021

**THE BOARD OF TRUSTEES**

Metropolitan Waterworks and Sewerage System  
489 Katipunan Avenue  
Balara, Quezon City



**Gentlemen:**

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, 2020 and 2019.

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

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements for CYs 2020 and 2019 due to the following:

1. Service Concession Assets and Deferred Service Concession Revenue with carrying amounts of P157.852 billion and P156.884 billion, respectively, as at December 31, 2020 are not supported with details and supporting documents, and the 2019 financial statements are materially misstated due to non-restatement of the opening balances of net assets/equity accounts, contrary to International Public Sector Accounting Standards (IPSASs) 1, 3 and 32;
2. Various errors and deficiencies in the Property, Plant and Equipment (PPE) account with carrying amount of P20.437 billion contrary to the pertinent provisions of IPSASs 1, 17 and 21, resulting to material misstatements of PPE and other affected accounts by undetermined amounts, which include the following: a) incomplete physical inventory of Property, Plant and Equipment (PPE) with carrying amount of P20.437 billion and non-submission of Physical Inventory Report (PIR) for CYs 2019 and 2020; b) absence of certificates of titles and proofs of ownership of land assets totaling P4.668 billion; c) non-existent, dilapidated, non-operational and/or abandoned Office Building and Other structures amounting to P5.117 billion as reported in CY 2018 PIR still carried in the books without impairment loss; and d) non-adjustment of Construction in Progress consisting of completed projects to PPE amounting to P156.551 million;

3. Doubtful collectability of various dormant receivables amounting to P4.255 billion, without provision for impairment loss, contrary to IPSAS 26 resulting to misstatement of receivables and related accounts by undetermined amounts; and
4. Assets and liabilities amounting to P574.475 million and P884.548 million, respectively, included in various assets and liabilities accounts in the financial statements as of December 31, 2020 and 2019 were unaccounted and undocumented, contrary to IPSASs 1 and 21, and the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, resulting to misstatement of assets by undetermined amount and liabilities by P884.548 million.

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

1. *On Service Concession Assets/Deferred Service Concession Revenue*, the Finance Department to:
  - a. Submit the pertinent reports and records requested to substantiate the initial recognition of Service Concession Assets (SCA) and Deferred Service Concession Revenue as enumerated in Part 2 of this report;
  - b. Restate the opening balances of net assets/equity accounts in the prior period financial statements presented on comparative basis with the current year financial statements and provide the required disclosure on the adoption of IPSAS 32; and
  - c. Perform a thorough analysis and validation of the Service Concession Assets (SCA) and regularly monitor the subsequent events affecting the PPE accounts, upgrade on existing assets, impairment and depreciation of the SCA, including the General Administrative Equipment (GAE).
2. *On Property, Plant and Equipment*
  - a. Asset Management Department (AMD) to conduct complete annual physical inventory and submit the CY 2020 Physical Inventory Report (PIR), CY 2020 Inspection and Inventory of Unserviceable Properties (IIRUP) with identification and description of turned-over GAEs from the concessionaires and with analysis and reconciliation with the Accounting records;
  - b. AMD to account and secure the land titles in MWSS's name and institute procedures on proper safekeeping and custody of the land titles and determine the ownership of the 23 land titles under the custody of MWSS that were not recorded in the books;
  - c. Finance Department to provide allowance for impairment losses to reflect the recoverable amount of the non-existent, dilapidated, non-operational and/or abandoned Office Building and Other structures with carrying amount of P5.117 billion;



- d. AMD and Finance Department to identify the decommissioned and abandoned deep wells with the structures thereon and determine the carrying amount of said properties for the recognition of impairment loss in the books as warranted; and
- e. Finance Department to reclassify the cost of completed projects to the appropriate PPE accounts and recognize the related depreciation expense reckoned from the date that the assets became operational.

3. *On Receivables*, the Finance Department to:

- a. Provide allowance for impairment losses on the dormant Receivables to reflect the recoverable amounts;
- b. Analyze the dormant receivable accounts to determine if they are qualified for write-off under COA Circular No. 2016-005 and accordingly, request for authority to write-off from the Commission on Audit;
- c. Submit an updated report on the arbitration of the disputed claims with Maynilad Water Services, Inc. amounting to P4.048 billion together with all the supporting legal documents;
- d. Formulate a schedule of payment for the Guarantee Deposits and Debt Service and impose the collection of the amounts due from the Concessionaires;
- e. Analyze and reconcile the receivable account from the two Concessionaires and if a shortfall of collection is found, immediately enforce collection of the amount advanced by the MWSS to pay the matured loans; and
- f. Send demand letters on the Receivables from government agencies and Inactive Raw Water customers amounting to P5.005 million and P1.519 million, respectively.

4. *On Unreconciled/Unverified accounts*

Finance Department to provide allowance for impairment loss on the unaccounted and undocumented assets reported at P574.475 million and revert back the unaccounted and undocumented liabilities totaling P884.548 million to Accumulated Surplus/Deficit account.

The foregoing audit observations and other significant observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff of Regulatory Office and Corporate Office during the exit conferences conducted on June 14, 2021 and June 16, 2021, respectively, are discussed in detail in Part II of the report.

In a letter of even date, we requested the OIC-Administrator, Corporate Office and the Chief Regulator, Regulatory Office, to implement the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from receipt.

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

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**MA. LYDIA F. DE JOYA**  
Director IV

Copy furnished:

The President of the Republic of the Philippines  
The Vice President  
The Senate President  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee  
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Commonwealth Avenue, Quezon City, Philippines  
**CORPORATE GOVERNMENT SECTOR**  
Cluster 3 – Public Utilities

August 26, 2021

**PLTGEN REYNALDO V. VELASCO (Ret.), Ph.D**  
OIC-Administrator  
Metropolitan Waterworks and Sewerage System  
489 Katipunan Avenue  
Balara, Quezon City



**Dear OIC-Administrator Velasco:**

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, 2020 and 2019.

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

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements for CYs 2020 and 2019 due to the following:

1. Service Concession Assets and Deferred Service Concession Revenue with carrying amounts of P157.852 billion and P156.884 billion, respectively, as at December 31, 2020 are not supported with details and supporting documents, and the 2019 financial statements are materially misstated due to non-restatement of the opening balances of net assets/equity accounts, contrary to International Public Sector Accounting Standards (IPSASs) 1, 3 and 32;
2. Various errors and deficiencies in the Property, Plant and Equipment (PPE) account with carrying amount of P20.437 billion contrary to the pertinent provisions of IPSASs 1, 17 and 21, resulting to material misstatements of PPE and other affected accounts by undetermined amounts, which include the following: a) incomplete physical inventory of Property, Plant and Equipment (PPE) with carrying amount of P20.437 billion and non-submission of Physical Inventory Report (PIR) for CYs 2019 and 2020; b) absence of certificates of titles and proofs of ownership of land assets totaling P4.668 billion; c) non-existent, dilapidated, non-operational and/or abandoned Office Building and Other structures amounting to P5.117 billion as reported in CY 2018 PIR still carried in the books without impairment loss; and d) non-adjustment of Construction in Progress consisting of completed projects to PPE amounting to P156.551 million;
3. Doubtful collectability of various dormant receivables amounting to P4.255 billion, without provision for impairment loss, contrary to IPSAS 26 resulting to misstatement of receivables and related accounts by undetermined amounts; and



4. Assets and liabilities amounting to P574.475 million and P884.548 million, respectively, included in various assets and liabilities accounts in the financial statements as of December 31, 2020 and 2019 were unaccounted and undocumented, contrary to IPSASs 1 and 21, and the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, resulting to misstatement of assets by undetermined amount and liabilities by P884.548 million.

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

1. *On Service Concession Assets/Deferred Service Concession Revenue*, the Finance Department to:
  - a. Submit the pertinent reports and records requested to substantiate the initial recognition of Service Concession Assets (SCA) and Deferred Service Concession Revenue as enumerated in Part 2 of this report;
  - b. Restate the opening balances of net assets/equity accounts in the prior period financial statements presented on comparative basis with the current year financial statements and provide the required disclosure on the adoption of IPSAS 32; and
  - c. Perform a thorough analysis and validation of the Service Concession Assets (SCA) and regularly monitor the subsequent events affecting the PPE accounts, upgrade on existing assets, impairment and depreciation of the SCA, including the General Administrative Equipment (GAE).
2. *On Property, Plant and Equipment*
  - a. Asset Management Department (AMD) to conduct complete annual physical inventory and submit the CY 2020 Physical Inventory Report (PIR), CY 2020 Inspection and Inventory of Unserviceable Properties (IIRUP) with identification and description of turned-over GAEs from the concessionaires and with analysis and reconciliation with the Accounting records;
  - b. AMD to account and secure the land titles in MWSS's name and institute procedures on proper safekeeping and custody of the land titles and determine the ownership of the 23 land titles under the custody of MWSS that were not recorded in the books;
  - c. Finance Department to provide allowance for impairment losses to reflect the recoverable amount of the non-existent, dilapidated, non-operational and/or abandoned Office Building and Other structures with carrying amount of P5.117 billion;
  - d. AMD and Finance Department to identify the decommissioned and abandoned deep wells with the structures thereon and determine the carrying amount of said properties for the recognition of impairment loss in the books as warranted; and
  - e. Finance Department to reclassify the cost of completed projects to the appropriate PPE accounts and recognize the related depreciation expense reckoned from the date that the assets became operational.
3. *On Receivables*, the Finance Department to:
  - a. Provide allowance for impairment losses on the dormant Receivables to reflect the recoverable amounts;

- b. Analyze the dormant receivable accounts to determine if they are qualified for write-off under COA Circular No. 2016-005 and accordingly, request for authority to write-off from the Commission on Audit;
- c. Submit an updated report on the arbitration of the disputed claims with Maynilad Water Services, Inc. amounting to P4.048 billion together with all the supporting legal documents;
- d. Formulate a schedule of payment for the Guarantee Deposits and Debt Service and impose the collection of the amounts due from the Concessionaires;
- e. Analyze and reconcile the receivable account from the two Concessionaires and if a shortfall of collection is found, immediately enforce collection of the amount advanced by the MWSS to pay the matured loans; and
- f. Send demand letters on the Receivables from government agencies and Inactive Raw Water customers amounting to P5.005 million and P1.519 million, respectively.

4. *On Unreconciled/Unverified accounts*

Finance Department to provide allowance for impairment loss on the unaccounted and undocumented assets reported at P574.475 million and revert back the unaccounted and undocumented liabilities totaling P884.548 million to Accumulated Surplus/Deficit account.

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

- 1. The existence and validity of the Other Assets account amounting to P225.001 million cannot be ascertained due to the dormancy of the account, non-submission of supporting documents, hence, did not reflect the reasonable recoverable amounts, that affected the faithful representation of the asset accounts, contrary with IPSASs 1 and 21.

*Recommendations:*

- a. Require the Finance Department to provide allowance for impairment losses to reflect the reasonable recoverable amounts;
  - b. Require the Finance Department to submit to the Commission on Audit a request for write-off of the dormant accounts, non-operational assets, garnished accounts and research and development accounts if the said accounts qualify for write-off;
  - c. Require the Legal Department to provide status of claims under government litigation, claims from AOs for cash shortage and garnished accounts; and
  - d. Require the Legal Department to identify all the persons liable for the necessary legal action of MWSS to recover its claims.
- 2. Unreconciled variance amounting P101.362 million between the book and bank balances of Cash in Bank account reported in the financial statements at P3.105 billion, due to non-preparation of Bank Reconciliation Statements (BRS) casts doubt on the validity and accuracy of the account balance, contrary to paragraph 27 of IPSAS 1, COA Circular No. 2020-02, and Sections 74 and 122 of Presidential Decree No. 1445.

*Recommendation:*

Require the Finance Department to prepare and submit the periodic bank reconciliation statements for all the bank accounts and take up the necessary adjustments on the variances noted, including the closed PNB accounts with net amount of P171,964.10 to arrive at the correct balances of the Cash in Bank account.

The foregoing audit observations and other significant observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff of Corporate Office during the exit conference conducted on June 16, 2021, are discussed in detail in Part II 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 thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) within 60 days from receipt hereof.

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

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**MA. LYDIA F. DE JOYA**  
Director IV

Copy furnished:

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The Vice President  
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The Secretary of the Department of Budget and Management  
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[ Name of the Agency and Address ]

**AGENCY ACTION PLAN and  
STATUS of IMPLEMENTATION**  
Audit Observations and Recommendations  
For the Calendar Year 20XX  
As of \_\_\_\_\_

[illegible]

Agency sign-off:

Name and Position of Agency Officer

Date \_\_\_\_\_

Note: Status of implementation may either be (a) Fully Implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines  
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August 26, 2021

**ATTY. PATRICK LESTER N. TY**  
Chief Regulator  
Metropolitan Waterworks and Sewerage System  
489 Katipunan Avenue  
Balara, Quezon City

**Dear Atty. Ty:**

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AUG 31 2021

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Finance Department to provide allowance for impairment loss on the unaccounted and undocumented assets reported at P574.475 million and revert back the unaccounted and undocumented liabilities totaling P884.548 million to Accumulated Surplus/Deficit account.

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

- 1. The restricted fund amounting to P103.774 million intended for the payment of future arbitrations was recorded as non-current asset contrary to paragraph 76 (d) of IPSAS 1, thus affecting the fair presentation of the account in the financial statements.

*Recommendation:*

Require the Accounting Section to reclassify the restricted fund amounting to P103.774 million from Restricted Fund account to Cash and Cash Equivalents.

2. Lack of monitoring and appropriate action on the Notices of Disallowance (ND) with issued Notices of Finality of Decision (NFD) amounting to P78.509 million resulted to non-recovery of amounts due from persons liable for the said NDs, contrary to Section 2.1 and Annex C of COA Circular No. 2020-002 and Section 7 of COA Circular No. 2009-006.

*Recommendations:*

- a. Require the Accounting Section to maintain and submit the subsidiary records of the persons liable for the subject NFD amounting to P78.509 million;
- b. Require the Accounting Section to reclassify the Due from Officers and Employees account amounting to P78.509 million to Receivables – Disallowances/Charges account;
- c. Require the Administration Department to formulate a policy on the settlement of disallowances with issued NFDs; and
- d. Cause the immediate recovery of the disallowances with issued NFD.

The foregoing audit observations and other significant observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff of Regulatory Office during the exit conference conducted on June 14, 2021, are discussed in detail in Part II 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 thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) within 60 days from receipt hereof.

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

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**MA. LYDIA F. DE JOYA**  
Director IV

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[ Name of the Agency and Address ]

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STATUS of IMPLEMENTATION**  
Audit Observations and Recommendations  
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[illegible]

Agency sign-off:

Name and Position of Agency Officer

Date \_\_\_\_\_

Note: Status of implementation may either be (a) Fully Implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed