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FOREWORD

This guide to the Concession Accounting and Auditing of the MWSS-RO is presented in two parts. Volume 1 is designed as a “ready reference guide” containing the developed Concession Accounting and Auditing Guidelines and the required Schedule templates. Volume 2 contains the matrix of Concessionaires’ comments relative to the CAAGs, Aides Memoire and matrix of interactions made during the development process.



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A. BACKGROUND

Concession Accounting and Auditing Guidelines (CAAGs) was conceptualized pursuant to MWSS Board Resolution No. 2015-039-RO and 2015-034-RO and MWSS-RO Resolutions No. 13-009-CA and 13-010-CA which provides for MWSS-RO to initiate improvements in the regulatory systems and processes.

In developing the guidelines, aside from the Concession Agreement as amended, KPI-BEMs Report and Concessionaires' Audited Financial Statement, references were also made to the MWSS-RO and MWSS-BOT Resolutions, reports submitted by the auditors commissioned by MWSS-RO during the 3rd and 4th Rate Rebasing exercise conducted during 2012 and 2017.

It is through the provisions of the Concession Agreement, and excerpts from the "*Accounting for Infrastructure Regulation-An Introduction*" the guiding principles were provided, to which CAAGs were drawn up. These guiding principles includes among others the following:

1. REGULATORY ACCOUNTING/AUDIT

- a. Not less than frequently that once a year, the Concessionaire's books and records shall be audited by an independent auditor appointed by, or acceptable to, the Regulatory Office, pursuant to internationally accepted accounting practices. In addition, the Regulatory Office may, upon giving not less than 15 days' prior written notice to the Concessionaire, require that the Concessionaire's books and records relating to the Concession be audited on an interim basis by the Regulatory Office or by an outside auditor. The Concessionaire shall cooperate fully with all such audits. (CA Article 13.2);
- b. Excerpts from the "Accounting for Infrastructure Regulation-An Introduction" ¹
 - i. Accounting costs do not necessarily go directly into the determination of tariff.²
 - ii. Accounting data that are valid from a legal and fiscal point of view are not necessarily valid from an economic point of view. One of the duties of a regulator is to validate the operator's data economically (proper allocation of revenues and costs, efficient level of costs). But the requirement should be cost effective and no more stringent than necessary. ³
 - iii. Regulators not only have the right to audit the data, but can exclude some lines of costs or approve only partially incurred expenses.⁴

¹ Pardina, M.R, Rapti, R.S and Groom, E.,2008. *Accounting for Infrastructure Regulation – An Introduction. The International Bank for Reconstruction and Development / The World Bank*

² Ibid. Pg 71

³ Ibid pg 11

⁴ Ibid. Pg 72

2. GENERAL PARAMETERS

In dealing with the development of the General Parameters (refer to Section 5) applicable to Receipts and Expenditures the following guiding principles were considered which were developed consistent with the provisions of the Concession Agreement, as follows:

A. Explicit Exclusions by the Concession Agreement (i.e. CA-Allowable Expense Test)

- a. "Receipts" means all cash receipts from customers and grants from third parties (including the Republic) to the Concessionaires, excluding any interest and dividends received by the Concessionaire. (CA -Article 1 Definitions). Although the section on Receipts did not contain General Parameters, the parameters set in the Conditions for Inclusion considers the above provision of the Concession Agreement;
- b. "Expenditures" means pre-operating and operating expenditures, capital maintenance and investment expenditures, Concession Fees and Philippine business taxes of the concessionaire (including the Concessionaire's portion of any such items incurred by the Joint Venture), excluding penalties, interest charges on late payments, financing costs, bad debt provisions and depreciation provisions. (CA -Article 1 Definitions).

B. Relationship Test

- a. Although the Concession Agreement did not mention "Relationship Test" explicitly, it does have the following provision: *"Cash flows" means (i) in the context of historical cash flow, both Receipts and Expenditures efficiently and prudently incurred by the Concessionaire **in the course of carrying out its obligations** under the Concession Agreement, (ii) in the context of future cash flows, (A) both anticipated Receipts and Expenditures efficiently and prudently incurred by the Concessionaire **in the course of carrying out its obligations** under this Agreement and (B) from and after the second Rate Rebasing Date, any Expiration Payment agreed to be paid by MWSS to the Concessionaire on the Expiration Date pursuant to Section 9.4.3;...* (Emphasis supplied); (CA – Article 1 Definitions). These provisions would connote a cause-and-effect relationship between Cash Flows and the obligations of the Concessionaires;
- b. Costs and revenues should be allocated to the different services from which they arise. To allocate the different account items on a causality basis, the operator must identify one of the following relationships:⁵
 - a directly traceable cause-and-effect relationship with provision of the service;
 - a verifiable relationship between the item and the output of the service; and
 - a revenue or cost having a direct causal relationship with a pool of common costs or revenues and allocation of that pool on the basis of a relevant, reliable, and verifiable factor such as relative use.

C. Efficiency and Prudency Test

- a. "Disapproved Assets" means any assets acquired by the Concessionaire following the Commencement Date which are not, in the reasonable opinion of the Regulatory Office, needed for the efficient and prudent performance by the

⁵ Ibid. Pg 118

Concessionaire of its obligations under this Agreement and are so identified in a writing sent to the Concessionaire by the Regulatory Office. (*Article 1 Definition*);

- b. “Cash Flows” xxx it being understood that Expenditures “efficiently and prudently incurred” does not include, among other things, payments for (X) Disapproved Assets or (Y) fees for management or consulting services required by the Concessionaire in order to carry out its obligations under this Agreement payable to any shareholder or affiliate of the Concessionaire to the extent, in the judgment of the Regulatory Office, that such fees do not represent the best value available in the market for such services. (*Article 1 Definitions*);
- c. *The following principles, excerpted from the reference “Accounting for Infrastructure Regulation-An Introduction”¹, are also relevant in the development of the CAAGS:*
 - i. The regulator might decide to exclude inefficiently incurred cost in full or in part. Full lines of costs (specific cost items) may be excluded, because they are not considered useful (within a reasonable planning horizon for delivering the regulated service). Even if the cost is conceptually related to the regulated service, regulators may partially exclude incurred expenses where they are shown to be clearly inefficient. Regulators want to avoid the risk that the regulated companies incurred expenses at a cost higher than their market value.⁶
 - ii. From an economic perspective, only expenses useful for delivering the regulated service should be recovered through tariff charges to the users of the regulated service. Typically, regulators might exclude ex ante lines of costs such as sponsorships, lobbying expenses, donations, or some advertising costs not considered useful for delivering the regulated service.⁷
 - iii. The partial exclusion of incurred expenses relates to the delicate issue of excessive expenses. The objective of regulation is to simulate the positive effects of a competitive environment, so that the benefits of efficiency can be passed on to users through lower tariff. This objective is enforced through the level of costs that will be allowed by the regulator for tariff determination. The regulator excludes all excessive costs such as excessive capital expenditures, excessive salaries, excessive cost of energy or water purchases, and so on.⁸
 - iv. Operators may not understand why some expenses, accepted from a statutory accounts or fiscal point of view, are not accepted by a regulator. The main reason is that the regulator bases its decision on an economic perspective and defends the interests of users. If the regulator judges, on a rational and motivated basis, that some costs are imprudent, unnecessary, or inefficient, it would deem recovery of these costs though

⁶ Ibid, pg 72;

⁷ Ibid. pg 74

⁸ Ibid. pg. 75

tariffs paid by users to be economically inefficient and would exclude the costs from the calculation basis for future tariffs.⁹

- v. The rules for qualifying expenses proposed by the National Electricity Regulator of South Africa (NER 2002) are illustrative:
 - 1. Expenses must be incurred in an arms'-length transaction; where possible suppliers are treated equally without prejudice.
 - 2. Expenses must be incurred for the production and supply of electricity.
 - 3. Expenses must be prudently incurred after careful consideration of available options.
 - 4. Expenses must be incurred in the normal operations of the business. Where an expense is incurred under abnormal or extraordinary circumstances, consideration shall be given to spreading the expense over a number of years to match the time periods over which the benefit is derived.
 - 5. The regulated entity shall have the onus to justify to the Regulator that the expenses incurred conform to the above criteria.
 - 6. The regulator shall have the final discretion in allowing or disallowing an expense based on the above criteria.
 - 7. Expenses on research and development, charitable donations, lobbying expenses and advertising may or may not be included, in part or as a whole, as part of costs of supply at the regulator's discretion.
 - 8. The utility shall, in its price increase application, highlight all transactions with subsidiaries and sister companies.¹⁰
- vi. In the United States, the basic authority for a regulatory agency insisting on prudent costs (including investments) relies on the "just and reasonable" standard. If common regulatory law protects consumers with the statement that "just and reasonable" tariffs have to be charged, imprudent expenditures are inconsistent with that law, and no further notice is then required under applicable law.¹¹
- vii. Excessive expenses result from poor management. More specifically, they arise from¹²
 - 1. "gold-plating" behaviour, or investing in the most expensive equipment or producing the most expensive service regardless of the need or efficiency of the operation to maximize returns without diminishing sales;
 - 2. lack of good technical analysis; or
 - 3. lack of appropriate organizational procedures.
- viii. Goodwill can be described as a global concept that captures a set of company activities related to superior earning power, such as customer

⁹ Ibid. pg 119

¹⁰ Ibid pg. 119

¹¹ Ibid. Pg 72

¹² Ibid. Pg. 75

loyalty, employees' expertise, management capabilities, and all the other intangible factors that motivate people to do business with the company. The U.S. Federal Communication Commission noted that traditionally such excess acquisitions costs are partly or wholly excluded from rate bases, because these costs typically benefit the seller, not the ratepayer, and do not contribute to the plant supporting the regulated service. In arguing for inclusion of goodwill in the rate base, the regulated operator bears the burden of showing that its costs result from arms-length bargaining and that the net efficiency gains result in concrete, tangible benefits to ratepayers.¹³

3. INFORMATION REQUIREMENT:

- a. The Concessionaire shall provide to the Regulatory Office not later than 60 days following the end of each calendar year a report of the financial performance of the Concession. Such report shall include (i) an analysis of revenue by source and revenue from other sources, (ii) an analysis of operating cost which distinguishes between water supply, sewerage and other services, (iii) an analysis of capital expenditures and investments which distinguishes between water supply, sewerage and other services, and (iv) the other information specified in Schedule 7 hereto, as such Schedule may be revised by the Regulatory Office from time to time. (CA – Article 13.1.2);
- b. CAAGs require an explicit reconciliation of the concessionaire's statutory accounts and regulatory accounts, which will serve the objective of comparability (OFWAT 2002a, clauses 3.4.2 and 3.4.3):

"Where a Statutory Account amount has been consolidated or disaggregated in the Regulatory Accounting Statements, a worksheet must accompany the Regulatory Accounting Statements reconciling the Statutory Account amount shown in the Regulatory Accounting Statement to the Statutory Account amount in the Statutory Accounts of the Entity.

*The movement from Statutory Account to Regulatory Account will be clearly reported in the Regulatory Accounting Statements."*¹⁴

- c. Upon conduct of an audit or a similar engagement, claims by the Concessionaires on expenditures that are not supported by schedules/information/evidence as requested, despite reasonable requests by the MWSS RO or its appointed authority, and as long as it is not in contravention with existing laws, shall be automatically disallowed for consideration in the Rate Rebasing Period.
- d. The motivation for identifying related – party transactions separately is to allow the regulator to assess whether the transactions were recorded on a fair basis or under competitive conditions and to ensure that there was no unreasonable transfer of profits between the parties or between the operator's regulated activities and unregulated activities¹⁵

¹³ Ibid. Pg 95

¹⁴ Ibid. Pg 115

¹⁵ Ibid. Pg 116

4. CHALLENGES

The Concessionaires were involved in the drafting of the guidelines through several tripartite meeting conducted. During the process of the development of CAAGs, several challenges were encountered which include, but are not limited to the following:

- a. Mapping of Concessionaires' statutory account to the proposed regulatory account;
- b. Connecting the relationship of Financial regulatory audit and an eventual Rewards and Penalty Framework;
- c. Identifying the components of Labor cost;
- d. Managing the conflicting principles between MWSS-RO mandate and Concessionaires' interests;
- e. Managing the treatment of guaranty deposits and Corporate Income Tax in relation to the Opening Cash Position (OCP) pending the final resolution of the issue;
- f. Linking the relationship between the financial regulatory audit conducted by the MWSS-RO Financial Team and the Capex audit conducted by the Technical Team relative to Capital Expenditures and Repairs and Maintenance.

5. CAAGs GENERAL FRAMEWORK

CAAGs were developed based on, but not limited to the following premises, to wit:

- a. The inclusion of Guaranty Deposits as part of Receipts shall depend on the non-establishment or absence of a Sinking Fund for Guaranty Deposits. Existence of an established Sinking Fund for Guaranty Deposits, subject to regular monitoring by the MWSS-RO, shall not warrant the inclusion of such as part of Receipts, despite being a cash inflow;
- b. Receipts and Expenditures that contribute directly to the attainment of Service Obligations under the Concession Agreement may be subjected to the Rewards and Penalty framework that would govern the evaluation of the Regulatory Accounts. However, if warranted, the MWSS-RO is not precluded to perform a detailed financial regulatory audit related to these Regulatory Accounts.

For purposes of efficiency and prudence test of expenditures, the Rewards and Penalty framework, if and when implemented shall primarily govern.

The audited Regulatory Account balance shall be used in such analysis. Any amount excluded, if and when the expenditures is subjected to detailed financial audit, shall be considered in the Rewards and Penalty framework;

- c. In the event that the CAAGs audited Regulatory Account balances derived from the Statutory Accounts is not reconciled with other regulatory reports such as Business Efficiency Measures (BEMs), CAPEX Monitoring Report, the Concessionaire shall provide the reconciliation thereof;

- d. In addition to exclusions identified from the recent 2012 Rate Rebasing exercise as per OCP report submitted by the MWSS-RO's commissioned auditors, the evaluation of Receipts and Expenditures shall likewise be done taking into account the General Parameters contained in the CAAGs; and
- e. The assessment of Infrastructure CAPEX including related repairs and maintenance shall entail a Technical Audit. However, if warranted, the MWSS-RO is not precluded to perform a detailed Financial Audit of Infrastructure CAPEX. On the other hand, assessment of General and Administrative CAPEX, shall entail a detailed Financial Audit.

The MWSS-RO may change these Guidelines to:

- 1. Reflect the resolution of current regulatory issues (e.g. Corporate Income Tax, guaranty deposit etc.) and other regulatory issues identified in the future;
- 2. Amend the audit information that must be provided to MWSS-RO, and
- 3. Improve the audit process relative to MWSS-RO's adaptation of the recommendations made by its' commissioned auditors pursuant to the subsequent conduct of regulatory financial audit.

On 14 December 2015, MWSS RO Executive Committee issued RO Resolution No. 2015-015-CA dated 14 December 2015, adopting the draft guidelines, consisting 2 volumes.

During the 4th Rate Rebasing exercise conducted in year 2018, the draft CAAGs were subjected to further evaluation of the MWSS RO commissioned consultants, thus provided comments and recommendations to MWSS RO. Certain comments and recommendations were taken into consideration in updating the guidelines and were discussed and adopted last 6 December 2018 by the MWSS Execom, to the approval of the MWSS Board of Trustees.

Moreover, it is contemplated by the MWSS-RO that the established CAAGs shall be applicable in the assessment of the Concessionaires' cash flows relative to the determination of the Opening Cash Position (OCP) beginning the 5th Rate Rebasing Exercise.

On 26 September 2019, The MWSS BOT approved the implementation of the CAAGs and further to this, ruled that, upon conduct of an audit or a similar engagement, claims by the Concessionaires on expenditures that are not supported by schedules/information/evidence as requested, despite reasonable requests by the RO or its appointed authority, and as long as it is not in contravention with existing laws, shall be automatically disallowed for consideration in the Rate Rebasing Period.

B. CONCESSION ACCOUNTING AND AUDITING GUIDELINES [CAAGs]

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1. INTRODUCTION

1.1. Prefatory Statement

- 1.1.1. The Metropolitan Waterworks and Sewerage System - Regulatory Office (MWSS-RO) recognizes the importance of adopting and implementing a set of Concession Accounting and Auditing Guidelines (CAAGs) to ensure that:
1. The Concessionaires' respective Opening Cash Positions ("OCP");
 2. The relevant documentation and reports prepared pursuant to the determination of the Concessionaires' respective OCPs and;
 3. The audit methodology which the MWSS-RO shall employ to determine each of the Concessionaires' OCP
- are in accordance with the Concessionaires' respective Concession Agreements ("CAs").
- 1.1.2. The CAAGs shall specify the documents to be submitted by the Concessionaires' and shall prescribe templates for the Concessionaires' schedules to be used for purposes of reporting the Concessionaires' Regulatory Accounts, as such required documents and prescribed templates may be revised from time to time by the MWSS-RO.
- 1.1.3. The CAAGs shall also establish procedures to facilitate the conduct of the Rate Rebasing exercise and/or any exercise of regulatory prerogatives, including the manner of conducting the audit.
- 1.1.4. In general, the CAAGs shall endeavour to correctly reflect the accounting of Receipts and Expenditures included in the preparation and computation of the Opening Cash Position (OCP) of both Concessionaires in Rate Rebasing exercises.

1.2. Nature

- 1.2.1. The CAAGs is a set of rules and principles that shall govern the treatment Regulatory Accounts for purposes of determining each of the Concessionaires' OCP. Specifically, the CAAGs shall include the following:
- 1.2.1.1. Receipts
 1. Parameters for inclusion and exclusion of receipts in and from the OCP.
 - 1.2.1.2. Operating Expenditures
 1. Parameters for exclusion of expenditures in and from the OCP.
 - 1.2.1.3. Capital Expenditures ("CAPEX") and Concession Fee Payments
 1. Parameters for exclusion of Capital Expenditures
 2. Reconciliation of Concession fee payments
 - 1.2.1.4. Reconciliation of Working Capital

1. INTRODUCTION

1.3. Rationale / Objective

- 1.3.1. The primary objective of the CAAGs is to ensure that the Concessionaires' respective Receipts, and Expenditures identified by the Concessionaires as recoverable and included in its respective business models are valid, efficient and reasonable or prudent, and in compliance with the provisions of the Concession Agreements ("CAs"), in the normal course of business operations particularly water delivery and sewerage within its respective concession Specified Zones.
- 1.3.2. The CAAGs are likewise designed to facilitate:
- 1.3.2.1. the conduct of the Rate Rebasing exercises;
 - 1.3.2.2. guide the Concessionaires in the preparation of their respective business plans for the Rate Rebasing exercise by setting guidelines and prescribing documents needed for their respective submission;
 - 1.3.2.3. transparency and comparability between Concessionaires and perform necessary analysis on their water and sewerage activities;
 - 1.3.2.4. aid in arriving at informed regulatory decisions; and
 - 1.3.2.5. balance the interest of consumers with the need to make sure that the Concessionaires can finance the delivery of water and sewerage services.

1.4. Accounting Guidelines and Parameters

- 1.4.1. These CAAGs cover the nature, content, and principles of Regulatory Accounts, that is reconciled with audited financial statements consistent with Philippine Financial Reporting Standards ("PFRS"), and is subject to the efficiency and prudence parameters. It is intended that the CAAGs should take precedence over PFRS for purposes of the rate determination provisions under the CA. However, these guidelines should not be construed as a replacement to the PFRS.
- 1.4.2. As a general rule, identifying transactions as recoverable or not shall be consistent with the following:
- 1. Laws of the Republic of the Philippines;
 - 2. CA, as amended and extended;
 - 3. MWSS-BOT and MWSS-RO Resolutions;
 - 4. Appeals Panel decision on a Dispute Notice affirmed by the BOT Resolution and
 - 5. Agreements reached between MWSS, Concessionaires and other entities affecting the cash flows, if applicable.

2. DEFINITION OF TERMS

2.1. Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Concessionaires' respective CAs.

2.1.1. Business Efficiency Measures (BEMs)	refers to a monitoring tool in view of Article 6.5.1(iii) of the CA intended to facilitate in evaluating the efficiency of the operations of the Concessions.
2.1.2. Business Plan	refers to the Concessionaires' respective business plan for the relevant Rate Rebasing Period which included information on the Concessionaires' Expenditure, Receipts, Cash Flows, Opening Cash Position, Appropriate Discount Rate and Future Cash Flows as approved by MWSS Board of Trustees.
2.1.3. CAAGs	means the Concession Accounting and Auditing Guidelines.
2.1.4. CAPEX Headline classification	as used in the CAAGs, this refers to the "headline" CAPEX classification as stated in Concessionaires' respective Business Plan.
2.1.5. Concession Agreement or CA	refers to the signed agreement, as amended and extended, between (i) MWSS and Manila Water and (ii) MWSS and Maynilad pursuant to RA 8041.
2.1.6. Concessionaire	refers to Manila Water Company Inc. or Maynilad Water Services Inc. "Concessionaires" shall refer to both Manila Water and Maynilad.
2.1.7. Concessionaire Loan	refers to debts of the Concessionaire, obtained to finance or refinance the construction or refurbishment of the Facilities, or employee severance costs or other transitional costs incurred by the Concessionaire following the Commencement Date related to the Concession. This also includes loans incurred by the Concessionaire used to finance Concession Fee payments pursuant to Amendment No. 1 of the CA.
2.1.8. Environmental Revenue	refers to the percentage of basic water charge, other than sewerage charge, billed to all customers .
2.1.9. Employees Activities	Refers to expenditures incurred relative to employees activities like celebration of Christmas, Anniversary, Sport Fest, Team Building and other special events, subject to benchmarking.
2.1.10. Employees Benefits	Includes Business expense limit (BEL), mobility allowances, trainings and developments and other expenditures MWSS RO considers within the nature of "Employee Benefits", subject to benchmarking.

2. DEFINITION OF TERMS

2.1.11. Facilities	refers to all fixed and movable assets, including movable property, required to provide water delivery services and sewerage services in the Service Area but excluding the Retained Assets.
2.1.12. Financing charges	refers to those expenditures which are made or demanded by the bank or financial institution as a condition for extending credit.
2.1.13. Financial Audit	<p>refers to the audit and evaluation of the following:</p> <ol style="list-style-type: none"> 1. Receipts; 2. Operating Expenditures that have no and/or insignificant impact on the attainment of Service Obligations; 3. Concession Fee payments; 4. CAPEX not subjected to Technical Audit; 5. CAPEX classified as General and Administrative <p>which were incurred by each Concessionaire during the relevant Rate Rebasing period, as conducted by the “Financial Team” of MWSS-RO.</p>
2.1.14. Foreign Currency Differential Adjustment Revenue	refers to the revenues in view of Amendment No. 1 of the CA, where the Concessionaire is entitled to rate adjustment mechanism for the recovery or compensation on a current basis, subject to quarterly review and adjustment by MWSS, when necessary, of accrued FOREX losses/gains arising from any foreign denominated concessionaire loans used for capital expenditures and/or concession fee payments only, in lieu of the Extraordinary Price Adjustment recovery mechanism for FOREX losses under Article 9.3 of the CA.
2.1.15. Foreign Loss/Gains	refers to the difference (in peso) in the debt servicing arising from the changes in the exchange rates of foreign denominated loans at the time it was drawn (for concessionaire loans) or during the last rate rebasing (for concession fees) vis-a-vis the time it was paid or the time it is expected to be paid.
2.1.16. IFRIC 12	<p>refers to the interpretation issued by the IFRS Interpretation (formerly International Financial Reporting Interpretations Committee, or “IFRIC”) for the accounting by the operator of its broad range of Service Concession Arrangements.</p> <p>A service concession agreement is defined as an arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), or operate and maintain the grantor’s infrastructure assets.</p>
2.1.17. Investments	as used in the pro forma Schedule of Working Capital refers to assets and liabilities related to Investment in Subsidiaries, Joint Ventures, Available for Sale of Financial Assets i.e. stocks etc.

2. DEFINITION OF TERMS

2.1.18. Other Revenue	refers to revenues from regular service connections, legalized water connection/installation, fees from reconnections, laboratory tests, septic sludge disposal/desludging, water tankering, recovery of written-off accounts and proceeds from sale/rental of assets and other revenues from activities outside the concessionaires' core operations.
2.1.19. Other Charges	as used in the pro forma Schedule of Concession Fee Payments (Annex D), the column other charges would refer to payments other than the interest, guarantee fee, and commitment charge that are not included in the FCDA determination.
2.1.20. Outside Specified Zone	as used in the pro forma Schedule of Reconciliation of Income Statement (Annex A), the column outside specified zone refers to Receipts and Expenditures that are incurred on behalf of a related entity and other business development projects outside East Zone for Manila Water and West Zone for Maynilad.
2.1.21. Party	means MWSS-RO or any of the Concessionaires.
2.1.22. Provisions CA	as used in the pro forma schedules under Section 7 of the CAAGs, the column Provisions-CA refers to receipts/expenditures explicitly identified in the Concession Agreement as non-recoverable or not within the definition of Receipts/Expenditures. Included also are the movement of Assets and Liabilities related to Concession Agreement identified receipts/expenditures.
2.1.23. PFRS	refers to Philippine Financial Reporting Standards. PFRS include statements named PFRS and Philippine Accounting Standards, including Philippine Interpretations from International Committee (IFRIC issued by the International Financial Standards Council.
2.1.24. Reclassification	refers to the change from one account to another to aid the assessment of the holistic behaviour of expenditures having similar nature, in consideration with other underlying factors.
2.1.25. Regulatory Accounts	refers to the account where information is more focused on the regulated businesses or activities of the Concessionaire as contained in its respective Statutory Accounts. This is derived by adjusting the Statutory Account balances that comprises the Opening Cash Position ("OCP") taking into consideration the provisions contained in the CAAGs.
2.1.26. Rewards and Penalty	refers to a system of rewards granted and penalties as implemented by the MWSS-RO as contemplated in Article 9.4. of the Concession Agreement.

2. DEFINITION OF TERMS

2.1.27. RO Inclusion /Exclusions	as used in the schedules under Section 7 of the CAAGs, the column RO Inclusion/Exclusions refers to the MWSS-RO's adjustments in the Concessionaires' receipts and expenditures pursuant to CAAGs.
2.1.28. Service Obligation	refers to the obligations of the Concessionaire of the kind referred to in Article 5 of the CA, as such Service Obligations may be revised from time to time by MWSS-RO in accordance with the CA.
2.1.29. Sewer Revenue	refers to the percentage of basic water charge, other than environmental charge, billed to all customers .
2.1.30. Specified Zone	refers to East and West Zone of the MWSS Service Area.
2.1.31. Statutory Account	refers to the accounts in the Concessionaires' respective quarterly and/or audited financial statements prepared in accordance to PFRS, which cover all the Concessionaires' respective business activities, including activities outside of its respective Specified Zone.
2.1.32. Technical Audit	refers to the audit and evaluation of all completed and on-going CAPEX programs and projects being undertaken by each Concessionaire which are included in their respective approved Business Plans for the relevant Rate Rebasing period as conducted by the "Technical Team" of MWSS-RO.
2.1.33. Water Revenue	refers to revenues derived from sale of water and other revenues directly related to the provision of water which includes but not limited to basic water charge, discounts, unbilled water services and maintenance service charge.



3. CATEGORIES

3.1. NATURE	<p>3.1.1. refers to the proper grouping of each cost and expenditures incurred during the relevant Rate Rebasing period. Receipts and Expenditures shall be classified and/or allocated according to the following major-activities.</p> <ol style="list-style-type: none"> 1. Water Service Activity; 2. Wastewater Service Activity; and 3. General and Administrative Activity. <p>3.1.2. However, if warranted, the MWSS-RO is not precluded to request for the classification and/or allocation of such according to sub-activities.</p> <p>3.1.3. The activity-classification of Receipts and Expenditures shall be observed and/or considered by the Concessionaires in the preparation of the Information Requirements under Section 7 of the guideline and as much as possible, to other regulatory reports and/or schedules that may be required by the MWSS-RO.</p>
3.2. Water Service	<p>3.2.1. refers to all business activities within its Specified Zone which are directly related to the provision of water services.</p> <p>3.2.2. As used in Information Requirements and schedules under Section 7 of the CAAGs guidelines, all Receipts and Expenditures that are derived from sale of water and/or are directly related and have significant impact to the provision of water services within the Concessionaires' respective Specified Zone shall be categorized under "Water Service Activity".</p>
3.3. Wastewater Service	<p>3.3.1. refers to all business activities within its Specified Zone which are directly related to the provision of sewer and sanitation services.</p> <p>3.3.2. As used in schedules under Section 7 of the CAAGs, all receipts and expenditures that are directly related to providing sewerage and sanitation services within the Concessionaires' respective Specified Zone shall be categorize under "Wastewater Service Activity".</p>
3.4. General and Administrative	<p>3.4.1. refer to all business activities that are related but not directly identifiable with water and sewerage and sanitation services activities.</p> <p>3.4.2. As used in schedules under Section 7 of the CAAGs, all receipts and expenditures that are related but not directly identifiable with water, sewerage and sanitation services within the Concessionaires' respective Specified Zone shall be categorize under "General and Administrative Activity".</p>



3. CATEGORIES

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| | <p>3.4.3. All other costs and Expenditures not related to water, sewer and sanitation services shall be excluded.</p> |
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4. RECEIPTS

NATURE

Receipts include all cash receipts from Customers and grants from third parties (including from the Republic) to the Concessionaire, excluding any interest and dividends received by the Concessionaire.

4.1. Regular Receipts

4.1.1. NATURE

4.1.1.1. Regular Receipts shall include the following:

1. Water Revenue
2. Environmental Revenue
3. Sewer Revenue
4. Other Revenue
5. Foreign Currency Differential Adjustment ("FCDA") Revenue

4.1.2. GUIDELINES

4.1.2.1. Because Regular Receipts is the resultant directly caused by the attainment of the Service Obligations under the Concession Agreement, the Regulatory Account may be subjected to the Rewards and Penalty framework that would govern the actual receipts incurred.

4.1.2.2. However, if warranted by national security, public concern, public health, public interest, public policy, or public welfare, the MWSS-RO and/or its commissioned auditor/s is/are not precluded to perform a detailed Financial Audit related to Regular Receipts.

4.1.2.3. In addition to the schedules specified under Section 7 of the CAAGs, Concessionaires shall provide the following:

1. Schedule of Water, Environmental and Sewer Revenues that consists the following (priority):
 - a. Annual Consumption (in mcm) per customer rate class (i.e., residential, semi-business, commercial and industrial); and per class (Water, Environmental and Sewer Revenue);
 - b. Annual Revenue per customer rate class (i.e. residential, semi-business, commercial and industrial) and per class (Water, Environmental and Sewer Revenue);
 - c. List of active customers and their reference nos./identifications per customer class (i.e. residential, semi-business, commercial and industrial); and
 - d. Change in the classification of customers. Indicate the customer's reference no. / identification, previous customer classification, new customer

4.1. Regular Receipts

- classification, and effective month of change in customer classification.
2. GL transaction listing of other revenues in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule of other revenues below (priority)
 3. Schedule of Other Revenues shall consist of the following (secondary):
 - a. Nature of each revenue classified as Other Revenue
 - b. Unrealized Forex Gain
 - c. Total amount per year
 4. Schedule of customer – related fees indicating the following:
 - a. Nature and total annual amount of customer-related fees per business area which includes but not limited to:
 - i. new service connection;
 - ii. reconnection fee;
 - iii. disconnection fee;
 - iv. desludging fee;
 - v. installation charge;
 - vi. other charges
 - b. Number of service connections per business area classified as follows:
 - i. installed;
 - ii. disconnections; and
 - iii. reconnections
 5. Schedule of desludging service provided per business area indicating the following:
 - i. frequency of desludging;
 - ii. volume desludged;
 - iii. number of desludged trucks used;
 6. Policies relative to all customer related fees.
 7. Schedule of movements in Trust Liability related to Regular Receipts for the audit period, other than Guaranty Deposits and Connection Fees.
- 4.1.2.4. However, if warranted by national security, public concern, public health, public interest, public policy, or public welfare, the MWSS-RO and/or its commissioned auditor/s is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaires shall provide, subject to prior discussion with the Concessionaires.

4.1. Regular Receipts	
4.1.3. CONDITION FOR INCLUSION	<p>4.1.3.1. Unless otherwise stated, Regular Receipts shall include cash inflows that meet the following minimum principles:</p> <ol style="list-style-type: none"> 1. Generated as a result of the principal operations in the course of carrying out its Service Obligations under the Concession Agreement within its Specified Zone; 2. Corresponds with the definition of Receipts under the Concession Agreements; 3. Received as reimbursement of expenditures incurred in the course of carrying out the Concessionaires service obligations under the Concession Agreement. 4. Other criteria the Regulatory Office may consider during the course of the audit, subject to prior discussion with Concessionaires.
	<p>4.1.3.2. Non-Cash revenues such as Unrealized Forex Gains shall be excluded.</p>
	<p>4.1.3.3. The Concessionaire shall have the onus to justify to the MWSS-RO that the receipt/s incurred that would comprise the Opening Cash Position is in accordance to the provisions in the CAAGs.</p>
4.1.4. RECLASSIFICATION	<p>4.1.4.1. For regulatory purposes:</p> <ol style="list-style-type: none"> 1. Any Service Connection Fee classified as Trust Liability shall be reclassified as part of Regular Receipts 2. Entries to Deferred FCDA/Deferred Charges – BS relating to the Foreign Currency Differential Adjustment (FCDA) charges to customers shall be reclassified as Regular Receipts 3. Any other customer related fees received by the Concessionaires from its customers within its Specified Zone for services rendered such as installation of service connection, reconnection fees, desludging etc. shall be reclassified as part of Regular Receipts.

4.2. Guaranty Deposits	
4.2.1. NATURE	4.2.1.1. Guaranty Deposits includes payments by the Concessionaires' customers upon application for water service connections to secure payment of customers' water charge, that is refunded to the customers, net of outstanding water charges, upon termination of its water service connection.
4.2.2. GUIDELINES	<p>4.2.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaires shall provide a Schedule of the movements in Guaranty Deposits for the audit period indicating the following:</p> <ul style="list-style-type: none"> a. Schedule of the movements in guaranty deposits b. Annual balance of deferred credit relative to guaranty deposits (i.e. total amount of guaranty deposits received without corresponding service connections) c. Annual balance of Customers Guaranty Deposit <p>4.2.2.2. However, if warranted by national security, public concern, public health, public interest, public policy, or public welfare, the MWSS-RO and/or its commissioned auditor(s) is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaires shall provide, subject to prior discussion with the Concessionaires.</p>
4.2.3. CONDITION FOR INCLUSION	4.2.3.1. Notwithstanding the non-establishment or absence of a Sinking Fund for Guaranty Deposits, Guaranty Deposits should form part of Receipts.

5. EXPENDITURES

5.1. NATURE	5.1.1. Expenditures includes pre-operating and operating expenditures, capital maintenance and investment expenditures, Concession Fees and Philippine business taxes of the Concessionaire (including the Concessionaires' portion of any such items by the Joint Venture), excluding penalties, interest charges on late payments, borrowing cost, bad debts provisions and depreciation provisions.
5.2. GUIDELINES	<p>5.2.1. Certain Expenditures that contribute directly to the attainment of Service Obligation under the Concession Agreement may be subjected to the Rewards and Penalty framework that would govern the evaluation of the actual expense incurred.</p> <p>5.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s) is/are not precluded to perform a detailed financial audit related to these Expenditures.</p> <p>5.2.3. Regulatory Accounts that are not directly related to service delivery shall be subjected to Financial Audit, while Regulatory Accounts directly related to service delivery shall be subjected to Technical Audit.</p> <p>5.2.4. However, in case an expenditure directly related to service delivery is/was not covered by the Technical Audit, such expenditure shall be subjected to Financial Audit.</p> <p>5.2.5. If no Rewards and Penalty framework is implemented, all Regulatory Accounts shall be subjected to Financial Audit, except those subjected to Technical Audit, explicitly Capital Expenditures.</p> <p>5.2.6. The Conditions for Exclusions mentioned below shall be applicable to all Expenditures, unless otherwise stated.</p> <p>5.2.7. The Concessionaire shall provide the schedules specified under Section 7 of the CAAGs and other schedules stated in the CAAGs.</p> <p>5.2.8. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s) is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p> <p>5.2.9. In the event that the Regulatory Account balances derived from the Statutory Accounts, do not reconcile with the Concessionaires' reports submitted to the MWSS-RO, such as Business Efficiency Measures (BEMs) and CAPEX Monitoring</p>

5. EXPENDITURES

	Report, the Concessionaire shall provide the reconciliation thereof.
5.3. CONDITIONS FOR EXCLUSIONS	<p>5.3.1. Expenditures shall be evaluated taking into account the following General Parameters:</p> <p>5.3.1.1. CA-Allowable Expense Test</p> <p>The following Expenditures are not recoverable under the CA.</p> <ol style="list-style-type: none"> 1. Penalties; 2. Interest charges on late payments; 3. Financing cost other than taxes; 4. Bad debts provisions; and 5. Depreciation provision. <p>5.3.1.2. Relationship Test</p> <p>Allowable Expenditures under the relationship test shall be those that comply with any of the following:</p> <ol style="list-style-type: none"> 1. Necessary in the course of carrying out its Service Obligations within its Specified Zone; 2. Related to the operation of the Concessionaires' Service Obligations within its respective Specified Zone; 3. Beneficial to the Concessionaires' customers within its respective Specified Zone; or 4. Incurrence should be recurring in the normal operations of the business. In the event of incurring expenses under abnormal or extraordinary circumstances, incurrence should be appropriately justified. <p>5.3.1.3. Efficiency and Prudence Test</p> <p>Expenditures that meet the following criteria shall be included in the Concessionaires' respective Opening Cash Position.</p> <ol style="list-style-type: none"> 1. Passed the relationship test and the CA-Allowable expense test mentioned above; 2. Adequately supported, substantiated and provides sufficient information to establish the incurrence, necessity and reasonableness of the expenditure; 3. Incurred cost is appropriately considered reasonable under the circumstances; 4. Does not yield to branding, image enhancement, lobbying and the like;

5. EXPENDITURES

5. Cost is not caused by the fault, omission, negligence or wilful act of the Concessionaire;
6. Transactions with affiliates are fully disclosed, should represent the “best value in the market”;
7. In the event that additional expenses are required to meet the Service Obligations, resulting to a greater actual expenditure than the expenditures in the Concessionaires’ approved Business Plan, the recoverability of the excess shall likewise be subjected to the provisions set herewith;
8. Non-cash expenses are not included in the determination of the Opening Cash Position; and
9. Other criteria the MWSS-RO may consider during the course of the audit, subject to prior discussion with Concessionaire.
10. The Concessionaire shall have the onus to justify to the MWSS-RO that the expense incurred conforms to the provisions set in the CAAGs.

5.4. RECLASSIFICATION

- 5.4.1. For regulatory purposes, reclassification of Statutory Accounts of relatively similar in nature may be required in view of the following:
 1. Assessing the holistic behaviour of expenditure in consideration with other underlying factors. In addition, this may also aid in the evaluation of projecting future cash flows.
 2. Facilitate benchmarking of actual historical data contained in the statutory statements with the projections as embodied in the Business Plan.

5.1. Salaries, Wages and Benefits

5.1.1. NATURE

- 5.1.1.1. Salaries, Wages and Benefits include primarily basic salaries, statutory and discretionary bonuses, retirement expense and benefits.
- 5.1.1.2. Benefits shall include amounts granted to employees on a timely (i.e. monthly) basis, such as but not limited to regular allowance (RATA), fringe benefit tax, trainings for personnel development shall also be considered as benefits.

5.1.2. GUIDELINES

- 5.1.2.1. The MWSS-RO and/or its commissioned auditor(s) shall review the payroll benchmarking report submitted by the Concessionaire.
- 5.1.2.2. The MWSS-RO and/or its commissioned auditor(s) may also perform benchmarking against (a) other Concessionaire; (b) other comparable local utility companies; (c) industry standards studies conducted by a recognized independent human resources consulting company; and (d) data on compensation and benefits necessary for benchmarking purposes provided thru an internationally recognized professional service firm dealing with risk management and human resource consulting, of which MWSS RO have subscribed to.
- 5.1.2.3. The MWSS RO and/or its commissioned auditor/s shall determine the concessionaires' respective compensation plan.
- 5.1.2.4. MWSS RO thru its consultants, shall set a reasonable limit of (a) Performance bonuses; (b) Employee activities and Employee benefits that can be allowed for recovery, based on the market data report provided by an internationally recognized professional service firm dealing with risk management and human resource consulting.
- 5.1.2.5. Because Salaries, Wages and Benefits contribute directly to the attainment of the Service Obligations Salaries, Wages and Benefits shall be subjected to the Rewards and Penalty framework that would govern the evaluation of the actual expense incurred.
- 5.1.2.6. The prudence and efficiency tests should be done by the Technical audit team. The process on Financial audit relative to the direct cost should be limited to the analysis and gathering of corroborating evidence on the propriety of the claim for rewards and benchmarking of personnel cost.

However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s) is not precluded to perform a detailed Financial Audit related to Salaries, Wages and Benefits.

5.1. Salaries, Wages and Benefits

The basis for the computation of the direct costs subject to Rewards and Penalties shall be the balance after the audit. However, the related forecast should likewise be adjusted, if necessary.

5.1.2.7. Yet, in case Salaries, Wages and Benefits is not covered by the Technical Audit, it will be subjected to Financial Audit.

5.1.2.8. In addition to the schedules specified under Section 7 of the CAAGs, the following documents shall be made available by the Concessionaire during course of the audit:

1. GL transaction listing of salaries, wages and benefits in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule of benefits / training and other employee activities below. (priority)
2. Schedule of Salaries, Wages and Benefits as per Annex C-3;
3. Payroll management report
4. Certified headcount and total amount per position classification described below, segregated between water, wastewater and general and administrative functions
 - a. Top management i.e., President; Vice-President; Chief Executive Officer; Chief Financial Officer; Chief Operations Officer and the like;
 - b. Middle management i.e. Assistant Vice President, Department Manager, Department Head and the like;
 - c. Supervisory;
 - d. Rank and File
4. Payroll benchmark report
5. Copies of Collective Bargaining Agreement (CBA)
6. Amount Allocation (water, wastewater, general and administrative)
7. Concessionaire's policies on employee benefits for all levels (rank and file, middle management, upper management, executives).
8. Headcount of contractual employees under Salaries, Wages and Benefits segregated between water, wastewater and general and administrative functions.
9. Schedule of benefits / training / other employee activities: (secondary)
 - a. Head count of employees / personnel

5.1. Salaries, Wages and Benefits

	<p>b. Nature / purpose / description</p> <p>c. Amount</p> <p>10. Disclosure of all adjustments and reclassifications.</p> <p>5.1.2.9. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p> <p>5.1.2.10. In the event that the CAAGs Regulatory Account balances derived from the Statutory Accounts relative to Salaries, Wages and Benefits do not reconcile with other regulatory reports such as Business Efficiency Measures (BEMs), the Concessionaire shall provide the reconciliation thereof.</p>
5.1.3. CONDITIONS FOR EXCLUSIONS	<p>5.1.3.1. Unless otherwise stated, for rate setting purposes, Salaries, Wages and Benefits shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs;</p> <p>5.1.3.2. For purposes of the test on efficient and prudent expenditures, the Rewards and Penalty framework shall primarily govern. For such purpose, the adjusted Regulatory Account balance of Salaries, Wages and Benefits shall be used. Any amount excluded, if and when Salaries, Wages and Benefits is subjected to a detailed financial audit, shall be considered in the Rewards and Penalty;</p> <p>5.1.3.3. For regulatory purposes, Salaries, Wages and Benefits shall exclude non-cash transactions like retirement expense with no actual cash contribution to the retirement fund.</p> <p>5.1.3.4. Issuances of shares under the ESOP can be considered as “constructive payments” and should be allowed as OCP deduction at issue date.</p> <p>However, the redemption of shares by the Concessionaire are not recoverable.</p> <p>5.1.3.5. Financial audit shall ensure the completeness and propriety of the total amount of employee activities and benefits subjected to benchmarking. Adjustments, reclassifications should be traced to the source.</p>

5.1. Salaries, Wages and Benefits

	In the event the proposed amount to be recovered cannot be traced to the source, unexplained or/undisclosed (e.g. including adjustments and reclassifications) the same would be considered as “lack of supporting documents”, thus excluded.
5.1.4. RECLASSIFICATION	<p>5.1.4.1. For regulatory purposes, the following shall be reclassified:</p> <ol style="list-style-type: none"> 1. as Salaries, Wages and Benefits: <ol style="list-style-type: none"> a. Fringe benefit Tax initially classified under Taxes, Licenses and Fees account; b. Allocated portion of insurance premiums for cars assigned for executives’ and managers’ associated with personal use, and cost incurred due to vehicular accidents involving such cars where the accident is due to the fault of such manager or executive, initially classified under Insurance account; c. Foreign and local travel related to trainings, workshops and seminars for employee development, initially classified under Transportation and Travel account; d. Any related reimbursement related to employee compensation package classified under various expenditure account; e. Cost capitalized related to the Engineering and Development representing salaries, wages and benefits of Concessionaire employees assigned to projects; f. Contracted Services involving purely manpower services initially classified under Contracted Services account. g. Employee Benefits such as Business expense limit (BEL), mobility allowances, trainings and developments and other expenditures MWSS RO considers within the nature of “Employees Benefits”. h. Cost incurred for employees’ activities such as but not limited to employee recognition awards, celebration of Christmas, anniversary, sports fest, team building and other special events. <p>5.1.4.2. For regulatory purposes, any Expenditure that does not conform under the nature of Salaries, Wages and Benefits shall be reclassified to its proper expenditure account.</p>

5.2. Power

5.2.1. NATURE

- 5.2.1.1. Power includes electricity charges incurred in the delivery of Services Obligation by the Concessionaire and expenses for fuel used in the generation of power (e.g. generator sets).

5.2.2. GUIDELINES

- 5.2.2.1. Because Power costs contribute directly to the attainment of the Service Obligations under the Concession Agreement, the Regulatory Account may be subjected to the Rewards and Penalty framework that would govern the evaluation of the actual expense incurred.
- 5.2.2.2. The prudence and efficiency tests should be done by the Technical audit team. The process on Financial audit relative to the direct cost should be limited to the analysis and gathering of corroborating evidence on the propriety of the claim for rewards.
- However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s) is not precluded to perform a detailed Financial Audit related to power.
- 5.2.2.3. The basis for the computation of the direct costs subject to Rewards and Penalties shall be the balance after the audit. However, the related forecast should likewise be adjusted, if necessary.
- 5.2.2.4. In case, power expense is not covered by the Technical Audit, it shall be subjected to Financial Audit.
- 5.2.2.5. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the Schedule of Power Cost indicating the following:
1. GL transaction listing of Power in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedules below (priority).
 2. Power (secondary)
 - a. Facility;
 - b. Location (City/Municipality);
 - c. Consumption (in kWh) per facility;
 - d. Power Cost per facility
 - e. Amount Allocation (water, wastewater, general and administrative).
 3. Fuel for generator sets (secondary)
 - a. Assigned facility of generators;
 - b. Assigned location of facility (City/Municipality);

5.2. Power

	<ul style="list-style-type: none"> c. Consumption (in liters of fuel used) per facility d. Fuel cost per facility e. No. of hours the generator sets were operational for each facility <p>4. Copy of energy audit reports, if any</p> <p>5.1.2.5. The Concessionaire shall provide justification for power costs under accounts that are not registered under the name of the Concessionaire.</p> <p>5.1.2.6. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p> <p>5.1.2.7. In the event that the CAAGs Regulatory Account balances derived from the Statutory Accounts relative to Power Costs do not reconcile with other regulatory reports such as Business Efficiency Measures (BEMs), the Concessionaire shall provide the reconciliation thereof.</p>
5.2.3. CONDITIONS FOR EXCLUSIONS	<p>5.2.3.1. Unless otherwise stated, for rate setting purposes, Power costs shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.2.3.2. For purposes of the test on efficient and prudent expenditures, the Rewards and Penalty framework shall principally govern. For such purpose, the adjusted Regulatory Account balance of Power costs shall be used. Any amount excluded, if and when Power cost is subjected to detailed Financial Audit, shall be considered in the Rewards and Penalty.</p>
5.2.4. RECLASSIFICATION	<p>5.1.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Power costs shall be reclassified to its proper expenditure account.</p>

5.3. Treatment Cost

5.3.1. NATURE	<p>5.3.1.1. Treatment Cost includes costs of chemicals used in the delivery of water and sewerage services by the Concessionaires in its respective Specified Zone.</p> <p>5.3.1.2. For water treatment, these chemicals include but not limited to liquid chlorine, liquid aluminum sulfate, liquid poly aluminum chloride, polymer.</p>
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5.3.Treatment Cost

5.3.2. GUIDELINES

5.3.1.3. For wastewater/used water treatment, these chemicals includes but not limited to sodium hypochloride, polymer, odor-control.

5.3.2.1. Because Treatment Costs contribute directly to the attainment of the Service Obligations under the Concession Agreement, the Regulatory Account may be subjected to the Rewards and Penalty framework that would govern the evaluation of the actual expense incurred.

5.3.2.2. The prudence and efficiency tests should be done by the Technical audit team. The process on Financial audit relative to the direct cost should be limited to the analysis and gathering of corroborating evidence on the propriety of the claim for rewards.

However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s) is not precluded to perform a detailed Financial Audit related to treatment cost.

5.3.2.3. The basis for the computation of the direct costs subject to Rewards and Penalties shall be the balance after the audit. However, the related forecast should likewise be adjusted, if necessary.

5.3.2.4. In case, treatment cost is not covered by the Technical Audit, it shall be subjected to Financial Audit.

5.3.2.5. The MWSS-RO and/or its commissioned auditor(s) shall examine billing statements, contracts and actual payments made by the Concessionaire, and shall determine the nature of service rendered. The process from procurement to utilization of chemicals including costing policies must be reviewed and be traced to the original transaction.

5.3.2.6. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall also provide the following during audit:

1. GL transaction listing of Treatment Cost in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority);
2. Schedule of Treatment Chemicals used to indicate the following information (secondary):
 - a. Chemical type
 - b. Facilities / Catchment
 - c. Treatment Activity (water or wastewater)

5.3. Treatment Cost

	<ul style="list-style-type: none"> d. Volume of treatment chemical consumed per Facility and activity e. Cost per Facility and activity <ul style="list-style-type: none"> 3. Documents / agreements / supply contracts that establish the unit cost being used. 4. Document supporting the flow of treatment chemicals from inventory assets to expense. <p>5.3.2.7. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.3.3. CONDITIONS FOR EXCLUSIONS	<p>6.3.3.1. Unless otherwise stated, for rate setting purposes, Treatment Costs shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>6.3.3.2. For purposes of the test on efficient and prudent expenditures, the Rewards and Penalty framework shall primarily govern. For such purpose, the adjusted Regulatory Account balance of Treatment Costs shall be used. Any amount excluded, if and when Treatment Cost is subjected to detailed financial audit, shall be considered in the Rewards and Penalty.</p>
6.3.4. RECLASSIFICATION	<p>6.3.4.1. For regulatory purposes,</p> <ul style="list-style-type: none"> 1. If the contract stated such provision, payment of Treatment Cost used related to Wastewater classified under Contracted Services shall be reclassified as Treatment Chemicals; 2. Any expenditure that does not conform under the nature of Treatment Cost shall be reclassified to its proper expenditure account.

5.4. Materials and Supplies

5.4.1. NATURE	<p>5.4.1.1. Materials and Supplies include expenses for materials, supplies, equipment and parts used by the Concessionaires in their administrative and office support activities. These include, but not limited to, office supplies, computer parts and supplies.</p>
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5.4. Materials and Supplies

5.4.2. GUIDELINES	<p>5.4.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaires shall also provide the following during audit:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Materials and Supplies in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); 2. Summary of Materials and Supplies indicating the following (secondary): <ol style="list-style-type: none"> a. Major Categories of Material and Supplies; <ol style="list-style-type: none"> 1. Office Supplies; 2. Computer parts and supplies; 3. Electrical supplies and accessories; 4. Others b. Annual amount per category 3. Document supporting the flow of materials and supplies from inventory asset to expense. <p>5.4.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaires shall provide, subject to prior discussion with the Concessionaires.</p>
5.4.3. CONDITIONS FOR EXCLUSIONS	<p>5.4.3.1. Unless otherwise stated, for rate setting purposes, Materials and Supplies shall be recoverable to the extent that these meet the requirements set under Section 5 of the CAAGs.</p>
5.4.4. RECLASSIFICATION	<p>5.4.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Materials and Supplies shall be reclassified to its proper expenditure account.</p>

5.5. Repairs and Maintenance

5.5.1. NATURE	<p>5.5.1.1. Repairs and Maintenance includes expenditures for the repairs and maintenance of plants, Facilities, transmission and distribution networks, transportation equipment, and other equipment (technical/infrastructure, general and administrative).</p>
5.5.2. GUIDELINES	<p>5.5.2.1. Repair and Maintenance related to water and wastewater Facilities shall be audited using the same methodology as</p>

5.5.Repairs and Maintenance

Capital Expenditure as this is part of the Asset Management Obligations of the Concessionaire under Article 6.5 of the Concession Agreement, provided that Repairs and Maintenance cost not subjected to Technical Audit shall undergo a detailed Financial Audit.

- 5.5.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to perform also a detailed Financial Audit related to Repairs and Maintenance of assets which are subjected to Technical Audit.
- 5.5.2.3. In case, repairs and maintenance expense was not covered by the Technical Audit, it shall be subjected to Financial Audit.
- 5.5.2.4. Whereas, Repairs and Maintenance of assets related to general operations and administrative purposes shall be subjected to a detailed Financial Audit.
- 5.5.2.5. Repairs and Maintenance of assets related to general operations and administrative purposes shall entail a detailed financial audit.
- 5.5.2.6. The MWSS-RO and/or its commissioned auditor(s) shall examine billing statements, contracts and actual payments made by the Concessionaire, and shall determine the nature of service rendered. Allocation policies as applied to repairs and maintenance of Concessionaires' assets that are partly employee benefits.
- 5.5.2.7. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall also provide the following:
 1. GL transaction listing of Repairs and Maintenance in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority);
 2. Summary of Repairs and Maintenance Costs indicating the following:
 - a. Name of Facility being repaired
 - b. Assigned Location of Facility (City/Municipality)
 - c. Nature of maintenance broken down to:
 1. Infrastructure Facilities
 2. General and Administrative (Transportation, Technical and General Equipment)
 3. Area of Pipeline subject to Repair
 - d. Total maintenance cost i.e Materials, Labor, Overhead

5.5. Repairs and Maintenance

	<p>e. Amount Allocation (water, wastewater, general and administrative)</p> <p>3. Document supporting the flow of materials from inventory asset to expense</p> <p>5.5.2.8. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaires shall provide, subject to prior discussion with the Concessionaires.</p>
5.5.3. CONDITIONS FOR EXCLUSIONS	<p>5.5.3.1. Unless otherwise stated, for rate setting purposes, Repairs and Maintenance shall be to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.5.3.2. Repairs and Maintenance shall exclude the following:</p> <ol style="list-style-type: none"> 1. Recurring repairs and maintenance of the equipment that are considered beyond economic repair as evidenced by frequent breakdown and non-use after repair, unless the repair and maintenance is justified; 2. Incurrence of repairs of equipment outside the Specified Zone area unless justified; 3. Repairs of vehicles due to the fault of the Concessionaire and its assigns not covered by insurance. 4. Other Repairs and Maintenance deemed excluded during the conduct of the audit subject to prior discussion with Concessionaire.
5.5.4. RECLASSIFICATION	<p>5.5.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Repairs and Maintenance shall be reclassified to its proper expenditure account.</p>

5.6. Contracted Services

5.6.1. NATURE	<p>5.6.1.1. Contracted Services includes costs incurred for outsourced services obtained for the provision of water, wastewater and performance of general and administrative functions.</p> <p>These services include, but not limited to, meter reading, bill printing, customer related services, fleet management, wastewater services and various administrative and technical functions.</p>
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5.6. Contracted Services

5.6.2. GUIDELINES

- 5.6.2.1. Because Contracted Services contributes directly to the levels of service delivered to customers within its Specified Zone, the adjusted Regulatory Account in consideration with customer related fees, if applicable, as discussed in Section 3.1 (Regular Receipts) may be subjected to the Rewards and Penalty framework that would govern the evaluation of the actual expense incurred.
- 5.6.2.2. The prudence and efficiency tests should be done by the Technical audit team. The process on Financial audit relative to the direct cost should be limited to the analysis and gathering of corroborating evidence on the propriety of the claim for rewards.
- However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s) is not precluded to perform a detailed Financial Audit related to Contracted Services.
- 5.6.2.3. The basis for the computation of the direct costs subject to Rewards and Penalties shall be the balance after the audit. However, the related forecast should likewise be adjusted, if necessary.
- 5.6.2.4. In case, contracted services were not covered by a Technical Audit, it shall be subjected to Financial audit.
- 5.6.2.5. The MWSS-RO and/or its commissioned auditor(s) shall examine billing statements, contracts and actual payments made by the Concessionaire, and shall determine the nature of service rendered.
- 5.6.2.6. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaires shall provide the following during audit:
- a. GL transaction listing of Contracted Services in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority);
 - b. Schedule of Contracted Services indicating the following (secondary):
 1. Nature and total annual amount of services provided per category:
 - a. Bill delivery;
 - ~~b. Payment Facility;~~
 - c. Disconnection/Reconnection;
 - d. Operation Management
 1. Water;
 2. Wastewater;

5.6. Contracted Services

	<ul style="list-style-type: none"> 3. General and Administrative <ul style="list-style-type: none"> e. New Water Service Connection; f. Call Center; g. Other outsourced services h. Provider i. Signed agreements related to the contracted services for the audit period. j. Schedule of Contracted Services related to Wastewater indicating the following: <ul style="list-style-type: none"> 1. Nature of Service Provided 2. Expenditures incurred broken as follows: <ul style="list-style-type: none"> a. Sludge Disposal b. Sludge Wasting / desludging c. Bio-solid Disposal d. Grit and Screening Hauling e. Other Wastewater Services f. Documents / agreements / supply contracts that establish the unit cost being used e.g. unit cost of chemicals used on wastewater services (if available). <p>5.6.2.7. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaires shall provide, subject to prior discussion with the Concessionaires.</p>
5.6.3. CONDITIONS FOR EXCLUSIONS	<p>5.6.3.1. Unless otherwise stated, for rate setting purposes, Contracted Services shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.6.3.2. For purposes of the test on efficient and prudent expenditures, the Rewards and Penalty framework shall primarily govern. For such purpose, the adjusted Regulatory Account balance of Contracted Services shall be used. Any amount excluded, if and when Contracted Services is subjected to detailed Financial Audit, shall be considered in the Rewards and Penalty.</p>

5.6. Contracted Services

5.6.4. RECLASSIFICATION	<p>5.6.4.1. For regulatory purpose:</p> <ol style="list-style-type: none"> 1. Contracted Services involving purely manpower services shall be reclassified under Salaries, Wages and Benefits; 2. Treatment Costs used related to Wastewater shall be reclassified under Treatment Chemicals (as much as possible); 3. Any expenditure that does not conform under the nature of Contracted Services shall be reclassified to its proper expenditure account.
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5.7. New Service Connection

5.7.1. NATURE	5.7.1.1. New Service Connections includes costs of installing new service connections for water and wastewater services.
5.7.2. GUIDELINES	<p>5.7.2.1. Because New Service Connections contribute directly to the attainment of the Service Obligations under the Concession Agreement, in consideration to Service Connection Fees discussed in Section 3.1 above (Regular Receipts), the balance of the Receipts/Expenditure relative to New Service Connection may be subjected to the Rewards and Penalty framework that would govern actual expense incurred.</p> <p>5.7.2.2. The prudence and efficiency tests should be done by the Technical audit team. The process on Financial audit relative to the direct cost should be limited to the analysis and gathering of corroborating evidence on the propriety of the claim for rewards.</p> <p>However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s) is not precluded to perform a detailed Financial Audit related to the New Service Connection in consideration with Service Connection Fees discussed in Section 3.1 above (Regular Receipts).</p> <p>5.7.2.3. The basis for the computation of the direct costs subject to Rewards and Penalties shall be the balance after the audit. However, the related forecast should likewise be adjusted, if necessary.</p> <p>5.7.2.4. In case, the expenses relative to New Service Connection was not covered by a Technical Audit, it shall be subjected to Financial Audit.</p>

5.7. New Service Connection

	<p>5.7.2.5. In addition to the schedules specified under Section 7 of the CAAGs, submission from the Concessionaires for New Service Connection cost shall be covered in the submission for Service Connection Fees discussed in Section 4.1 (Regular Receipt) above.</p> <p>5.7.2.6. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaires shall provide the following during audit:</p> <ol style="list-style-type: none"> GL transaction listing of New Service Connection in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority): The schedule of New Service Connection cost shall provide the following (secondary): <ol style="list-style-type: none"> Total annual number of new connections separating those relating to OPEX and CAPEX to identify unit costs for revenue valuation and future cost estimation; and Total annual cost of installation <p>5.7.2.7. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
<p>5.7.3. CONDITIONS FOR EXCLUSIONS</p>	<p>5.7.3.1. Unless otherwise stated, for rate setting purposes, New Service Connection expenditures shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.7.3.2. For purposes of the test on efficient and prudent expenditures, the Rewards and Penalty framework shall primarily govern.</p> <p>For such purpose, the adjusted Regulatory Account balance of New Service Connections in consideration to Service Connection Fee discussed in Section 3.1 above (Regular Receipts) shall be used.</p> <p>Any amount excluded, if and when New Service Connections is subjected to detailed audit, shall be considered in the Rewards and Penalty.</p>
<p>5.7.4. RECLASSIFICATION</p>	<p>5.7.4.1. For regulatory purposes, any expenditure that does not conform under the nature of New Service Connections shall be reclassified to its proper expenditure account.</p>

5.8.Occupancy Costs	
5.8.1. NATURE	5.8.1.1. Occupancy cost includes expenses incurred for rent of land, buildings and facilities. It also includes expenses for security and janitorial services.
5.8.2. GUIDELINES	<p>5.8.2.1. Because Occupancy Costs contribute directly to the attainment of the Service Obligations under the Concession Agreement, the Regulatory Account may be subjected to the Rewards and Penalty framework that would govern the evaluation of the actual expense incurred.</p> <p>5.8.2.2. The prudence and efficiency tests should be done by the Technical audit team. The process on Financial audit relative to the direct cost should be limited to the analysis and gathering of corroborating evidence on the propriety of the claim for rewards.</p> <p>However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s) is not precluded to perform a detailed Financial Audit related to occupancy cost.</p> <p>5.8.2.3. The basis for the computation of the direct costs subject to Rewards and Penalties shall be the balance after the audit. However, the related forecast should likewise be adjusted, if necessary.</p> <p>5.8.2.4. In case occupancy cost is not covered by a Technical Audit, it shall be subjected to Financial Audit.</p> <p>5.8.2.5. The MWSS-RO and/or its commissioned auditor(s) shall examine billing statements, contracts and actual payments made by the Concessionaire, and shall determine the nature of service rendered.</p> <p>5.8.2.6. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the following during audit:</p> <ol style="list-style-type: none"> GL transaction listing of Occupancy Costs in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); Schedule of Occupancy Costs indicating the following: <ol style="list-style-type: none"> Major categories of Occupancy Expense; <ol style="list-style-type: none"> MWSS Rental; Rental of Land; Rental of Equipment; Rental of Vehicle;

5.8. Occupancy Costs

	<ul style="list-style-type: none"> e. Rental of Venue, if applicable; f. Other Rental; g. Janitorial Services; h. Security Service <ul style="list-style-type: none"> 2. Location of the land, buildings and facility being rented; 3. Use of the Rented property; 4. Period Covered 5. Amount <ul style="list-style-type: none"> c. Signed agreements / contracts related to the Occupancy Costs for the audit period. d. Headcount of outsourced personnel related to Occupancy Cost, and intended fees for each personnel. <p>5.8.2.7. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaires shall provide, subject to prior discussion with the Concessionaires.</p>
5.8.3. CONDITIONS FOR EXCLUSIONS	<p>5.8.3.1. Unless otherwise stated, for rate setting purposes, Occupancy Costs shall be recoverable to the extent that these meet the requirement set under Section 5 of the CAAGs.</p> <p>5.8.3.2. Occupancy Costs shall exclude the following:</p> <ul style="list-style-type: none"> 1. Transactions made in behalf of other entities; 2. Payment of rent of hotels / restaurants used for meetings / seminars and other similar events which can be conducted within the office premises; 3. Other Occupancy Costs deemed excluded during the conduct of the audit subject to prior discussion with Concessionaire.
5.8.4. RECLASSIFICATION	<p>5.8.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Occupancy Costs shall be reclassified to its proper expenditure account.</p>

5.9. Collection Charges

5.9.1. NATURE	<p>5.9.1.1. Collection charges includes expenses incurred in the (i) employment of payment facilities provided by "bayad</p>
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5.9.Collection Charges

	centers”, banks, convenience stores etc. and (ii) other collection related services.
5.9.2. GUIDELINES	<p>5.9.2.1. Because Collections Charges contributes directly to the levels of service delivered to customers within its Specified Zone, the Regulatory Account may be subjected to the Rewards and Penalty framework that would govern the evaluation of the actual expense incurred.</p> <p>5.9.2.2. The prudence and efficiency tests should be done by the Technical audit team. The process on Financial audit relative to the direct cost should be limited to the analysis and gathering of corroborating evidence on the propriety of the claim for rewards.</p> <p>However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s) is not precluded to perform a detailed Financial Audit related to collection charges.</p> <p>5.9.2.3. The basis for the computation of the direct costs subject to Rewards and Penalties shall be the balance after the audit. However, the related forecast should likewise be adjusted, if necessary.</p> <p>5.9.2.4. However, if warranted by the public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor/s is/are, not precluded to perform a detailed Financial Audit related to Collection Charges.</p> <p>5.9.2.5. In case, collection charges is not covered by the Technical Audit, it shall be subjected to Financial Audit.</p> <p>5.9.2.6. The MWSS-RO and its commissioned auditor(s) shall examine billing statements, contracts and actual payments made by the Concessionaire, and shall determine the nature of service rendered. It shall also review collection agreements/contracts entered by the Concessionaires to determine the reasonableness of the rates being charge.</p> <p>5.9.2.7. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the following during audit:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Collection Charges in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); 2. Schedule of Collection Charges indicating the following (secondary): <ol style="list-style-type: none"> a. Name of collecting agents

5.9. Collection Charges

	<ul style="list-style-type: none"> b. Nature of services rendered c. Amount d. Period Covered e. No. of collections made for each collecting agent <p>3. Signed agreements / contracts with the collecting agents.</p> <p>5.9.2.8. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.9.3. CONDITIONS FOR EXCLUSIONS	<p>5.9.3.1. Unless otherwise stated, for rate setting purposes, Collection charges are allowable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.9.3.2. For purposes of the test on efficient and prudent expenditures, the Rewards and Penalty framework shall primarily govern. For such purpose, the adjusted Regulatory Account balance of Collection Charges shall be used. Any amount excluded, if and when Collection Charges is subjected to detailed audit, shall be considered in the Rewards and Penalty.</p>
5.9.4. RECLASSIFICATION	<p>5.9.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Collection Charges shall be reclassified to its proper expenditure account.</p>

5.10. Taxes, Licenses and Fees

5.10.1. NATURE	<p>5.10.1.1. Taxes, Licenses and Fees includes, but not limited to the following:</p> <ul style="list-style-type: none"> 1. Excavation permit 2. Documentary stamps 3. BIR registration 4. Vehicle registration 5. Discharge permit fee 6. Real property tax 7. Mayor's/business permit/local business tax 8. Local business tax 9. Water abstraction fees 10. Capital gains tax
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5.10. Taxes, Licenses and Fees	
	<ol style="list-style-type: none"> 11. Customs duties 12. Other taxes, fees, charges and license imposed by the government
5.10.2. GUIDELINES	<p>5.10.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide also the following:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Taxes, Licenses and Fees in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); 2. Schedule of Taxes, Licenses and Fees indicating the following during audit (secondary): <ol style="list-style-type: none"> a. Payee or Government Agency being paid; b. Location of Properties subjected to Tax c. Nature of Taxes, Licenses and Fees; d. Period Covered e. Amount f. For amortizations, an amortization schedule indicating the total amount recognized in the prepaid taxes and licenses; g. Owner of Property Subjected to Tax. In case the property is not in the name of the Concessionaire, they must present documentation/evidence why they are shouldering the tax on said property (i.e. transfer of ownership is currently being processed, property belongs to MWSS). <p>5.10.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.10.3. CONDITIONS FOR EXCLUSIONS	<p>5.10.3.1. Unless otherwise stated, for rate setting purposes, Taxes, Licenses and Fees are allowable to the extent that these meet the requirement set under Section 5 of the CAAGs.</p> <p>5.10.3.2. Taxes, Licenses and Fees shall exclude the following:</p> <ol style="list-style-type: none"> 1. Penalties and surcharges; 2. Mortgage and chattel mortgage fees

5.10. Taxes, Licenses and Fees

	<p>3. Other Taxes, License and Fees deemed excluded during the conduct of the audit subject to prior discussion with Concessionaire.</p> <p>5.10.3.3. Listing Fee – Philippine Stock Exchange shall be considered allowable, however, subject to ring-fencing and shall not exceed the reasonable limit to be set by MWSS RO.</p>
5.10.4. RECLASSIFICATION	<p>5.10.4.1. For regulatory purposes:</p> <ol style="list-style-type: none"> 1. Fringe benefit Tax shall be reclassified under Salaries, Wages and Benefits; 2. Vehicle registration assigned to executives for personal use shall be reclassified as Salaries, Wages and Benefits; 3. Any other expenditure that does not conform under the nature of Taxes, Licenses and Fees shall be reclassified to its proper expenditure account.

5.11. Insurance

5.11.1. NATURE	<p>5.11.1.1. Insurance includes payments made by the Concessionaire for the risk management of losses and damages. This contains the following:</p> <ol style="list-style-type: none"> 1. Property insurance (sabotage, business interruption and CPF) 2. Third party liabilities (public and product liabilities) 3. Directors' and officers' liabilities 4. Fleet/vehicle insurance 5. Contractors' all risk insurance 6. Equipment floater insurance 7. Insurance Brokers Fee
5.11.2. GUIDELINES	<p>5.11.2.1. The MWSS-RO and/or its commissioned auditor(s) shall examine billing statements, contracts and actual payments made by the Concessionaire, and shall determine the nature of insurance covered.</p> <p>5.11.2.2. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the following:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Insurance in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL

5.11. Insurance	
	<p>transaction listing should comply with the requirements in the schedule below (priority);</p> <ol style="list-style-type: none"> 2. Schedule indicating the following (secondary): <ol style="list-style-type: none"> a. Payee b. Nature of the Insurance c. Coverage of the Insurance d. OR No. e. Date of Payment f. Premium Paid g. Period Covered 3. Signed agreements / contracts with the insurance providers; 4. Company policy relative to the issuance of service vehicles <p>5.11.2.3. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are, not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.11.3. CONDITIONS FOR EXCLUSIONS	<p>5.11.3.1. Unless otherwise stated, for rate setting purposes, Insurance expenses shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.11.3.2. Insurance shall exclude the following:</p> <ol style="list-style-type: none"> 1. Insurance plans that refer to vehicles used apart from Concessionaires' service vehicles. 2. Costs incurred due to vehicular accidents resulting from faults or omissions of employees should not be recovered from consumers; 3. Other Insurance expense deemed excluded during the conduct of the audit subject to prior discussion with Concessionaire.
5.11.4. RECLASSIFICATION	<p>5.11.4.1. For regulatory purposes:</p> <ol style="list-style-type: none"> 1. Allocated portion of comprehensive car insurance plans for executives and managers associated with the personal use, and costs incurred due to vehicular accidents involving executives' service vehicles, shall be reclassified to Salaries, Wages and Benefits.



5.11. Insurance

2. Any other expenditure that does not conform under the nature of Insurance shall be reclassified to its proper expenditure account.

5.12. Transportation and Travel

5.12.1. NATURE

- 5.12.1.1. Transportation and travel includes expenses that pertain to, but not limited to the following:
- 5.12.1.2. Purposes may include, except those related to trainings and seminars, the following:
 1. product/services evaluation and orientation;
 2. twinning arrangements;
 3. best practices sharing;
 4. business conferences;
 5. other events analogous to the foregoing, but excluding trainings and seminars for employee development which are reported under Salaries and Wages account.
- 5.12.1.3. Expenses related to these local and foreign travels include the following:
 1. Airfare, travel tax, terminal fees;
 2. visa application and processing fees;
 3. travel insurance;
 4. Lodging, per diem, clothing allowance;
 5. Reimbursement of transport fares;
 6. Parking and toll fees;
 7. Fuel for vehicles; and
 8. Other authorized expenses not related to seminars and trainings.

5.12.2. GUIDELINES

- 5.12.2.1. The MWSS-RO and/or its commissioned auditor/s shall examine billing statements, contracts and actual payments made by the Concessionaire, and shall determine the nature of insurance covered.
- 5.12.2.2. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide also the following:
 1. GL transaction listing of Travel and Transportation in accordance with Section 7.3.1 of CAAGs. Descriptions

5.12. Transportation and Travel

	<p>in the GL transaction listing should comply with the requirements in the schedule below (priority);</p> <ol style="list-style-type: none"> 2. Schedule of Transportation and Travel (categorized as local or foreign) indicating the following (secondary): <ol style="list-style-type: none"> a. Nature / Purpose of the travel b. Name and Position of Employee/s c. Location of Travel d. Period Travelled e. Expenditures incurred i.e. airfare, visa fees, insurance, lodging transport fares, per diem, clothing allowance, parking and toll fees, fuel etc. f. Invitation of travel, brochure, itinerary; 3. Policy of the management on the revolving fund; 4. Authority to Travel 5. Other documents evidencing purpose of travel <p>5.12.2.3. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.12.3. CONDITIONS FOR EXCLUSIONS	<p>5.12.3.1. Unless otherwise stated, for rate setting purposes, Transportation and Travel are allowable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.12.3.2. Transportation and Travel shall exclude the following:</p> <ol style="list-style-type: none"> 1. Unjustified Reimbursement of fuel expenses and toll fees which are purchased outside the MWSS area. 2. Reimbursement related to road shows conducted by the Concessionaire in line with debt-issuance and / or equity offering; 3. Transactions relative to investor relations activities; 4. Transportation and Travel expense related to industry awards and recognition; 5. Transactions which supporting documents to evidence validity of expense will not be provided by the Concessionaire. These comprise various liquidations and replenishments of revolving fund.

5.12. Transportation and Travel

	6. Other Transportation and Travel expense deemed excluded during the conduct of the audit subject to prior discussion with Concessionaire.
5.12.4. RECLASSIFICATION	<p>5.12.4.1. For regulatory purposes:</p> <ol style="list-style-type: none"> 1. The following shall be reclassified as Salaries and Wages and Benefits: <ol style="list-style-type: none"> a. Foreign and/or local travel expenses relative to trainings, conventions and seminars intended for personnel development; b. Any related reimbursement related to employee compensation package. c. Any other expenditure that does not conform under the nature of Transportation and Travel shall be reclassified to its proper expenditure account.

5.13. Business Meetings and Representation

5.13.1. NATURE	5.13.1.1. Business Meetings and Representation includes expenses incurred for meetings and conferences, such as meals, utilities, logistics, representation and other administrative expense.
5.13.2. GUIDELINES	<p>5.13.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaires shall provide the following:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Business, Meetings and Representation in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); 2. Schedule of Business Meetings and Representation indicating the following (secondary): <ol style="list-style-type: none"> a. Major Categories of Business Meetings and Representation according to the activities or events involve, <i>e.g Rate Rebasing activity, KPI-BEMs meeting etc.</i> b. Purpose of incurrence c. Amount

5.13. Business Meetings and Representation	
	<p>3. Policy on the management of cash advance and reimbursement.</p> <p>5.13.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.13.3. CONDITIONS FOR EXCLUSIONS	<p>5.13.3.1. Unless otherwise stated, for rate setting purposes, Business Meetings and Representation are allowable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.13.3.2. Business Meetings and Representations shall exclude the following:</p> <ol style="list-style-type: none"> 1. Unsupported business expenses and reimbursements (e.g., no official receipts in the name of the Concessionaire, no approval and authorization, no signed attendance sheet.); 2. Appreciation meals, tokens, or gifts given to individuals and other costs which are not necessary in the attainment of its Service Obligations and in the conduct of its business within its Specified Zone nor beneficial to its customers within its Specified Zone; 3. Cash advances with no specific stated purpose or unable to directly relate to a particular project; 4. Company celebrations, conferences and other events. These pertain to payment for management agency fees, logistical costs and cost of venue incurred during sales Conferences; send-off meals for separated employees from service; 5. Recognition events or awards given to its employees that are not related to the delivery of water and wastewater services within the Specified Zone. 6. Other events which are charged to business meetings and conferences are deemed to be unnecessary in carrying out Concessionaires' obligations under the CA. 7. Other Business Meetings and Representation expense deemed excluded during the conduct of the audit subject to prior discussion with Concessionaire.
5.13.4. RECLASSIFICATION	<p>5.13.4.1. For regulatory purposes:</p> <ol style="list-style-type: none"> 1. Payments and reimbursement related to employee compensation package e.g. Business Expense Limit,

5.13. Business Meetings and Representation

Representation and Transportation Allowance and other allowances, subject to liquidation, that is granted to Concessionaires' employees shall be reclassified under the Salaries, Wages and Benefits.

2. Any other expenditure that does not conform under the nature of Business Meeting and Representation shall be reclassified to its proper expenditure account.

5.14. Information and Publicity

5.14.1. NATURE

5.14.1.1. Information and Publicity includes primarily the costs of placements and public notices in radio and television stations, yellow pages, and newspapers or magazines of general circulation, television appearances and media relations pertaining to water interruption, water rates, water quality monitoring, tariff advisories, invitations to prequalify/bid, company billboards and signage on site, tree plantings, other information and advocacy campaigns (e.g. Lakbayan, Daloy Dunong, Toka-toka), issuance of annual reports, sustainability reports and Concessionaires' newsletter to the extent that it represents the allocated value of the operation of the Specified zone, and promotional materials to LGUs, civic and religious organizations, government agencies, non-government organizations and other institutions relative to the provision of water and wastewater services within the Specified zone .

5.14.2. GUIDELINES

- 5.14.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the following:
1. GL transaction listing of Information and Publicity in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority);
 2. Relevant contracts;
 3. Proof/evidence of the occurrence of the Information and Publicity transaction (i.e. pictures of billboards, tarpaulin and signages, audio and video clip of radio and television placements, newspaper clippings for newspaper placements, screenshots and or links for online placements);
 4. Schedule of Information and Publicity indicating the following (secondary):

5.14. Information and Publicity

	<ul style="list-style-type: none"> a. Major classifications of Information and Publicity (media relation, public advisory, donations/sponsorships/giveaways, administrative (e.g. related to listing at local stock exchange, publication of annual reports and company / industry awards). b. Nature / purpose / description c. Provider d. Date or period covered e. Amount <p>5.14.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
<p>5.14.3. CONDITIONS FOR EXCLUSIONS</p>	<p>5.14.3.1. Unless otherwise stated, for rate setting purposes, Information and Publicity shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.14.3.2. Information and Publicity shall exclude the following:</p> <ul style="list-style-type: none"> 1. Television appearances, media relations, giveaways and sponsorships that are intended to build and enhance corporate image; 2. Media advertisements, which <u>do not</u> pertain to the following: <ul style="list-style-type: none"> a. issuance of guidelines, rules and regulations relative to the provision of water and wastewater within its Specified Zone; b. conduct of public biddings; c. dissemination of important public announcements such as: <ul style="list-style-type: none"> i. ad placements intended to inform the public on matters regarding water and wastewater service and usage; ii. information on service interruptions; and iii. information and promotion on conservation; iv. company billboards on-site relative to water and wastewater provisions;

5.14. Information and Publicity

- v. tree-plantings on watershed for MWSS sources;
- vi. Concessionaires internal newsletter intended for employees;
- vii. Allocated cost of Annual reports pertaining to the operations of the Specified Zone;
- viii. Promotional materials that are related to the provision of water and wastewater.
- ix. Advocacy campaigns (e.g. Lakbayan, Daloy-Dunong, toka-toka)

- 3. Various donations and sponsorships to certain groups which do not have bearing in the provision of delivering or improving the water and/or wastewater services of the Concessionaire within its Specified Zone;
- 4. Gifts items, corporate giveaways and tokens distributed or given to individuals;
- 5. Expenses that were incurred in relation with the Concessionaires' public listing at the local stock exchange, including but not limited to road shows, issuance of dividends and annual briefing analysts.
- 6. Expenditures relative to publication of Annual Report and Sustainability Reports shall be allowable to the extent that it represents the allocated value of the operation of the Specified Zone;
- 7. Expenditures incurred relative to company's / industry awards and recognition and;
- 8. Other Information and Publicity expense deemed excluded during the conduct of the audit subject to prior discussion with Concessionaire.

5.14.1.1. Expenditures relative to (a) publication of Annual Report and Sustainability Reports; (b) annual stockholders' meeting and (c) public listing fee shall be allowable to the extent that it represents the allocated value of the operation of the Specified Zone thus be subjected to ring-fencing).

The MWSS RO may consider setting a reasonable limit in the amount that can be recovered based on the report provided by a global professional firm dealing with risk management and human resources solutions.

5.14.4. RECLASSIFICATION

5.14.4.1. For regulatory purposes,

- 1. Cost relative to capitalized information and advocacy campaign that relates to inform and communicate with

5.14. Information and Publicity

	<p>stakeholders (customers, government, etc.) about its plans, programs, policies and developments, whether day-to-day or strategic classified as Capital Expenditures shall be reclassified as Information and Publicity.</p> <ol style="list-style-type: none"> Professional or educational sponsorships shall be excluded, unless extended to its' personnel and its outcome is beneficial to the attainment of Service Obligations, such expenses shall be classified as Salaries, Wages and Benefits; Any expenditure that does not conform under the nature of Information and Publicity shall be reclassified to its proper expenditure account.
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5.15. Communications

5.15.1. NATURE	<p>5.15.1.1. Communications includes costs of postage, telephone and supplies pertaining to telecommunication costs including landline and cellular phone charges, radio communications, internet and intranet systems.</p>
5.15.2. GUIDELINES	<p>5.15.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaires shall provide also the following during audit:</p> <ol style="list-style-type: none"> GL transaction listing of Communication in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); Schedule of Communications indicating the following (secondary): <ol style="list-style-type: none"> Landline charges Cellular charges including the registered name Internet Intranet systems Other radio communications Postage/courier services Subscription contracts. <p>5.15.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of</p>



5.15. Communications	
	the audit, which the Concessionaires shall provide, subject to prior discussion with the Concessionaires.
5.15.3. CONDITIONS FOR EXCLUSIONS	<p>5.15.3.1. Unless otherwise stated, for rate setting purposes, Communication expenses shall be recoverable to the extent that these meet the applicable requirements set in Section 7 of the CAAGs.</p> <p>5.15.3.2. Communication expenses shall exclude the following:</p> <ol style="list-style-type: none"> 1. Mobile subscription charges in excess of one plan for each entitled employee; 2. Other Information and Communication expenses deemed excluded in the conduct of the audit subject to prior discussion with Concessionaire.
5.15.4. RECLASSIFICATION	<p>5.15.4.1. For regulatory purposes:</p> <ol style="list-style-type: none"> 1. Any related reimbursement related to employee compensation package should be classified under the Salaries, Wages and Benefits. 2. Any expenditure that does not conform under the nature of Communications shall be reclassified to its proper expenditure account.

5.16. Water and Sewer Utility Charges	
5.16.1. NATURE	5.16.1.1. Water & sewer utility charges include cost pertaining to the water consumption of the Concessionaire.
5.16.2. GUIDELINES	<p>5.16.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide</p> <ol style="list-style-type: none"> 1. GL transaction listing of Water & Sewer Utility Charges in accordance with Section 7.3.1 of CAAGs with the following information: <ol style="list-style-type: none"> a. Facility b. Location c. Total annual Consumption of water d. Total Annual Amount <p>5.16.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are, not precluded to request additional / other relevant information, identified during the course of</p>

5.16. Water and Sewer Utility Charges	
	the audit, which the Concessionaires shall provide, subject to prior discussion with the Concessionaires.
5.16.3. CONDITIONS FOR EXCLUSIONS	5.16.3.1. Unless otherwise stated, for rate setting purposes, Water and Sewer Utility Charges shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.
5.16.4. RECLASSIFICATION	5.16.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Water and Sewer Utility Charges shall be reclassified to its proper expenditure account.

5.17. Regulatory Cost	
5.17.1. NATURE	5.17.1.1. Regulatory Cost includes the portion of the concession fees paid by the Concessionaire representing its share to cover the annual budget of MWSS and MWSS-RO in accordance with Section 6.4(b) and Section 11.2 of the CA.
5.17.2. GUIDELINES	<p>5.17.2.1. Review of Regulatory Costs shall include the reconciliation of Concession Fee payments with the records of MWSS Corporate Office.</p> <p>5.17.2.2. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the following during the conduct of audit:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Regulatory cost in accordance with Section 7.3.1 of CAAGs; 2. Regulatory Cost Schedule (see Annex E - Concession Fees template in the financial model); <p>5.17.2.3. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.17.3. CONDITIONS FOR EXCLUSIONS	<p>5.17.3.1. Unless otherwise stated, for rate setting purposes, Regulatory Costs shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.17.3.2. Concession Fee payments pertaining to Regulatory Costs shall exclude amounts which could not be reconciled with the records of MWSS Corporate Office.</p>

5.17. Regulatory Cost

5.17.4. RECLASSIFICATION

5.17.4.1. For regulatory purposes:

1. Regulatory Cost shall be the actual amount paid by the Concessionaire pertaining to Concession Fees for the annual budget of MWSS, regardless of the treatment of the transactions under the Philippine Financial Reporting Standards (PFRS);
2. Payments to fund annual budget of MWSS and the MWSS-RO initially classified as Concession Fee shall be reclassified as Regulatory Cost;
3. Any expenditure that does not conform under the nature of Regulatory Cost shall be reclassified to its proper expenditure account.

5.18. Systems Cost

5.18.1. NATURE

5.18.1.1. Systems cost includes the payments for the management, in whole or in part, of the Concessionaires' operations, which was delegated to another entity, whether affiliate or third party, having technically capability to engage in these services. Systems Costs shall be the proportion of the total payments relating to the regulated operations of the Concessionaire.

5.18.2. GUIDELINES

5.18.2.1. Because Systems Costs contribute directly to the attainment of the Service Obligations under the Concession Agreement, the Regulatory Account may be subjected to the Rewards and Penalty framework that would govern the evaluation of the actual expense incurred.

5.18.2.2. The MWSS-RO and/or its commissioned auditor(s) may also perform benchmarking against (a) other Concessionaire; (b) other comparable local utility companies; (c) industry standards studies conducted by a recognized independent human resources consulting company; and (d) data on compensation and benefits necessary for benchmarking purposes provided thru a global professional service firm dealing with risk management and human resource consulting, of which MWSS RO have subscribed to.

5.18.2.3. The process on Financial audit relative to the direct cost should be limited to the analysis and gathering of corroborating evidence on the propriety of the claim for rewards.

5.18. Systems Cost	
	<p>5.18.2.4. The basis for the computation of the direct costs subject to Rewards and Penalties shall be the balance after the audit. However, the related forecast should likewise be adjusted, if necessary.</p> <p>5.18.2.5. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to perform a detailed Financial Audit related to Systems Costs.</p> <p>5.18.2.6. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the following:</p> <ol style="list-style-type: none"> GL transaction listing of System Cost in accordance with Section 7.3.1 of CAAGs; Documents / agreements and contracts entered into since the commencement date relative to Systems Costs, including its amendments, if applicable. <p>5.18.2.7. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.18.3. CONDITIONS FOR EXCLUSIONS	<p>5.18.3.1. Unless otherwise stated, for rate setting purposes, Systems Costs shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.18.3.2. For purposes of the test on efficient and prudent expenditures, the Rewards and Penalty framework shall primarily govern. For such purpose, the adjusted Regulatory Account balance of System Costs shall be used. Any amount excluded, if and when Systems Costs is subjected to detailed Financial Audit, shall be considered in the Rewards and Penalty.</p>
5.18.4. RECLASSIFICATION	<p>5.18.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Systems Costs shall be reclassified to its proper expenditure account.</p>

5.19. Purchased Water	
5.19.1. NATURE	5.19.1.1. Purchased Water includes cost of raw or treated water sourced outside the existing MWSS water sources or cross

5.19. Purchased Water

border flows, for treatment and distribution to customers within the Specified Zone, in compliance to the Service Obligations in the Concession Agreement.

5.19.2. GUIDELINES

- 5.19.2.1. Because Purchased Water contributes directly to the attainment of the Service Obligations under the Concession Agreement, the Regulatory Account may be subjected to the Rewards and Penalty framework that would govern the evaluation of the actual expense incurred.
- 5.19.2.2. The prudence and efficiency tests should be done by the Technical audit team. The process on Financial audit relative to the direct cost should be limited to the analysis and gathering of corroborating evidence on the propriety of the claim for rewards.
- 5.19.2.3. The basis for the computation of the direct costs subject to Rewards and Penalties shall be the balance after the audit. However, the related forecast should likewise be adjusted, if necessary.
- 5.19.2.4. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to perform a detailed Financial Audit related to Purchased Water.
- 5.19.2.5. In case, expenditures relative to purchased water, was not covered by a Technical audit, it shall be subjected to Financial Audit.
- 5.19.2.6. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide:
- a. GL transaction listing of Purchase Water in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority);
 - b. Schedule of Purchased Water indicating the following (Secondary):
 1. Name of Supplier
 2. Volume
 3. Total Amount
 - c. The signed agreements / contracts related to the Purchased Water for the audit period.
- 5.19.2.7. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are, not precluded to request additional / other relevant information, identified during the course

5.19. Purchased Water	
	of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.
5.19.3. CONDITIONS FOR EXCLUSIONS	<p>5.19.3.1. Unless otherwise stated, for rate setting purposes, Purchased Water expenses are allowable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.19.3.2. For purposes of the test on efficient and prudent expenditures, the Rewards and Penalty framework shall primarily govern. For such purpose, the adjusted Regulatory Account balance of Purchased Water shall be used. Any amount excluded, if and when Purchased Water is subjected to detailed financial audit, shall be considered in the Rewards and Penalty.</p>
5.19.4. RECLASSIFICATION	5.19.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Purchased Water expense shall be reclassified to its proper expenditure account.

5.20. Donation and Contribution	
5.20.1. NATURE	5.20.1.1. Donation and contribution includes the fund given for a cause, or charitable purposes limited to accredited non-government organization related to water, wastewater and environment advocacy.
5.20.2. GUIDELINES	<p>5.20.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the following:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Donation and Contribution in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); 2. Schedule of Donations and Contribution indicating the following (secondary): <ol style="list-style-type: none"> a. Payee/Donee/Recipient/Beneficiary b. Purpose (including the area covered and/or the location of the Donee) c. The aggregate amount donated d. Conditions of the donation (if applicable) 3. Documents that cover the terms of the donation and contributions such as Deed of Donations,

5.20. Donation and Contribution	
	<p>Memorandum of Agreement or other documents evidencing the donation made.</p> <p>5.20.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.20.3. CONDITIONS FOR EXCLUSIONS	<p>5.20.3.1. Unless otherwise stated, for rate setting purposes, donations and contributions shall be recoverable to the extent that these meet the applicable requirement set in Section 5 of the CAAGs.</p> <p>5.20.3.2. Donations and contributions are excluded unless proven related to the attainment of the Service Obligations and beneficial to the customers within the Specified Zone.</p>
5.20.4. RECLASSIFICATION	<p>5.20.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Donations and Contributions shall be reclassified to its proper expenditure account.</p>

5.21. Semi-Expendable Expense	
5.21.1. NATURE	<p>5.21.1.1. Semi-Expendable expense includes fixtures, equipment, materials and supplies with useful life of not more than 1 year, and with acquisition cost within the prescribed limits under the Concessionaires' respective policies.</p>
5.21.2. GUIDELINES	<p>5.21.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the following during the conduct of the audit:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Semi-Expendable Expense in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); 2. Schedule of Semi-Expendable expense categorized base on major classification indicating the following (secondary): <ol style="list-style-type: none"> a. Name of Fixtures, equipment, materials and supplies b. Amount

5.21. Semi-Expendable Expense	
	5.21.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.
5.21.3. CONDITIONS FOR EXCLUSIONS	5.21.3.1. Unless otherwise stated, for rate setting purposes, Semi-Expendable expenses shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.
5.21.4. RECLASSIFICATION	5.21.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Semi-Expendable expense shall be reclassified to its proper expenditure account.

5.22. Subscription and Periodicals	
5.22.1. NATURE	5.22.1.1. Subscription and Periodicals includes subscriptions for newspapers, magazines, books, professional journals and other reference materials.
5.22.2. GUIDELINES	<p>5.22.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the following during the conduct of the audit:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Subscriptions and Periodicals in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); 2. Schedule of Subscriptions and Periodicals showing following (secondary): <ol style="list-style-type: none"> a. Subscribed item b. Description/Purpose c. Rate per month; per quarter; per year d. Annual amount spent <p>5.22.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>

5.22. Subscription and Periodicals

5.22.3. CONDITIONS FOR EXCLUSIONS	<p>5.22.3.1. Unless otherwise stated, for rate setting purposes, Subscriptions and Periodicals shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.22.3.2. Subscription and Periodicals shall exclude the following:</p> <ol style="list-style-type: none"> 1. Other Subscription and Periodicals expenses deemed excluded in the conduct of the audit subject to prior discussion with Concessionaire.
5.22.4. RECLASSIFICATION	<p>5.22.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Subscriptions and Periodicals shall be reclassified to its proper expenditure account.</p>

5.23. Performance Bond

5.23.1. NATURE	<p>5.23.1.1. Performance Bond includes the premium paid for the performance bond posted by the Concessionaire to secure the performance of the Service Obligations in accordance with Section 6.9 of the CA.</p>
5.23.2. GUIDELINES	<p>5.23.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the following during the conduct of the audit:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Performance Bond in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); 2. A schedule of Performance Bond indicating the following (secondary): <ol style="list-style-type: none"> a. Date Paid b. Amount (in original and converted currency) 3. The Performance Bond agreement. <p>5.23.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.23.3. CONDITIONS FOR EXCLUSIONS	<p>5.23.3.1. Unless otherwise stated, for rate setting purposes, Performance Bond expenditures shall be recoverable to</p>

5.23. Performance Bond

	the extent that these meets the applicable requirement set in Section 5 of the CAAGs.
5.23.4. RECLASSIFICATION	5.23.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Performance Bond shall be reclassified to its proper expenditure account.

5.24. Rentals

5.24.1. NATURE	5.24.1.1. Rental expense includes the rent for office machineries, vehicles and equipment used for the provision of water and wastewater services and administrative and office support (e.g. rent of photocopying machines, digital imaging machine and leak detection equipment and vehicles.
5.24.2. GUIDELINES	<p>5.24.2.1. The MWSS-RO and/or its commissioned auditor(s) shall examine billing statements, contracts and actual payments made by the Concessionaire, and shall determine the nature of service rendered. Allocation policies must be reviewed and allocated cost be traced to the original transaction.</p> <p>5.24.2.2. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide the following:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Rentals in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); 2. Schedule of Rental indicating the following (secondary): <ol style="list-style-type: none"> a. Name of Provider b. Nature of Rental provided c. Purpose of rental d. e. Rental period f. Amount 3. Signed agreements related to the Rentals for the audit period. <p>5.24.2.3. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of</p>

5.24. Rentals	
	the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.
5.24.3. CONDITIONS FOR EXCLUSIONS	<p>5.24.3.1. Unless otherwise stated, for rate setting purposes, rentals shall be recoverable to the extent that these meets the applicable requirement set in Section 5 of the CAAGs.</p> <p>5.24.3.2. Rental costs shall be recoverable to the extent that it represents the allocated value of the operation within the Concessionaire's Specified Zone.</p>
5.24.4. RECLASSIFICATION	5.24.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Rentals shall be reclassified to its proper expenditure account.

5.25. Management and Professional Fees	
5.25.1. NATURE	5.25.1.1. Management and Professional fees includes (i) fees paid to consultants and professionals engaged by the Concessionaire for services rendered where related expertise and capabilities are unavailable internally, of which encompass related party charges, legal, audit, technical, financial services which are necessary in the regular business operation and the attainment of service obligations and (ii) board and committee remuneration.
5.25.2. GUIDELINES	<p>5.25.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide also the following during audit:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Management and Professional Fees in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL transaction listing should comply with the requirements in the schedule below (priority); 2. Schedule of Management and Professional Fees indicating the following (secondary): <ol style="list-style-type: none"> a. Nature or background of services rendered (for legal fees, the nature and year of the cases); b. Provider c. Period covered of services rendered d. Amount 3. Signed agreements related to the Management and Professional Fees for the audit period.



5.25. Management and Professional Fees

	<ol style="list-style-type: none"> 4. Schedule of Board and Committee Remuneration indicating the following (secondary): <ol style="list-style-type: none"> a. Total Board Remuneration b. Total Board Allowances c. Number of Directors d. Number of Meetings e. Purpose of Meetings 5. Certified list of all cases that involves the Concessionaire indicating the following: <ol style="list-style-type: none"> a. Lawyers/law firms hired to handle each case b. Nature of the cases c. Parties involved d. Status of the cases (ongoing, settled, dropped, ruling in favor of the Concessionaire, ruling not in favor of Concessionaire and indicate if the ruling is final or appealed). e. Expenses and liabilities incurred as of date. <p>5.25.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.25.3. CONDITIONS FOR EXCLUSIONS	<p>5.25.3.1. Unless otherwise stated, for rate setting purposes, Management and Professional Fees shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.25.3.2. Management and Professional Fees shall exclude the following:</p> <ol style="list-style-type: none"> 1. Hiring of external or private legal counsels for litigation proceedings that are essentially administrative in nature e.g. unfair labor practice cases and SEC cases and not directly attributed to the benefit of the Customer; 2. Services of a consultant to perform relatively simple supervisory work or whose functions or services are redundant to that of existing employees or can be obtained internally; 3. Management fees which are not supported by contracts and / or scope and coverage cannot be

5.25. Management and Professional Fees

	<p>directly evaluated if these encompass unique and complex expertise;</p> <ol style="list-style-type: none"> 4. Board and committee remuneration beyond industry averages or regulatory averages; 5. Other professional fees related to advertising and corporate image enhancement. These include fees paid for image consulting and retainer fees for stakeholder / public relations firm; 6. Any related costs incurred arising from settlement entered into by the Concessionaire or litigation should be justified in terms of cost against benefits; 7. Any related costs incurred arising from an ongoing litigation should be excluded. However, should the litigation have subsequently decided favorably to the Concessionaire, the legal fees incurred (i.e. including legal fees incurred in the previous period) relative to the respective legal case should be considered recoverable. 8. Other Management and Professional expense deemed excluded during the conduct of the audit subject to prior discussion with Concessionaire.
5.25.4. RECLASSIFICATION	5.25.4.1. For regulatory purposes, any expenditure that does not conform under the nature of Management and Professional Fees shall be reclassified to its proper expenditure account.

5.26. Miscellaneous

5.26.1. NATURE	<p>5.26.1.1. Miscellaneous includes other expenses which could not be classified under any of the existing expenses accounts. These include, but not limited to the following:</p> <ol style="list-style-type: none"> 1. Professional membership dues 2. Water quality assurance fees 3. Relief efforts pertaining to water provision within the Specified Zone; 4. Bank charges which are not related to financing.
5.26.2. GUIDELINES	<p>5.26.2.1. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide:</p> <ol style="list-style-type: none"> 1. GL transaction listing of Miscellaneous in accordance with Section 7.3.1 of CAAGs. Descriptions in the GL

5.26. Miscellaneous	
	<p>transaction listing should comply with the requirements in the schedule below (priority)</p> <ol style="list-style-type: none"> 2. Major Categories of miscellaneous expenses incurred (secondary); <ol style="list-style-type: none"> a. Professional membership dues; b. Water quality assurance fees c. Relief efforts pertaining to water provision within the Specified Zone; d. Bank charges not related to financing cost; e. Others (specify nature of others) 3. Foreign Currency Gains or Loss subjected to Recovery; 4. Amount <p>5.26.2.2. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p>
5.26.3. CONDITIONS FOR EXCLUSIONS	<p>5.26.3.1. Unless otherwise stated, for rate setting purposes, Management and Professional Fees shall be recoverable to the extent that these meet the applicable requirements set in Section 5 of the CAAGs.</p> <p>5.26.3.2. Miscellaneous expense shall exclude the following:</p> <ol style="list-style-type: none"> 1. Expenditures in the celebration of Christmas, anniversary and other special events; 2. Transactions with no supporting documents to evidence validity of expense or insufficient information to determine the nature and purpose of the expense; 3. Payments relating to tax or other assessments by appropriate government instrumentalities, exercising their regulatory powers over the Concessionaire, for deficiency taxes, permits and fees or for non-compliance to specific regulations; 4. Donations to various projects in the form of medical, educational, funeral, legal, sports, food, transportation, charitable and livelihood; 5. Expense related to the conduct of water relief efforts outside the Concessionaires' respective Specified Zone;

5.26. Miscellaneous	
	<ol style="list-style-type: none"> 6. Other expenses not related to the delivery of water and wastewater services nor beneficial to the customers within its Specified Zone; 7. Payments for club membership fees whether local or international; 8. Payments for settlement of cases such as expenses incurred in accidents involving the Concessionaire or their employees; 9. Payments to adverse parties pursuant to final judgments finding bad faith or gross negligence on the part of the Concessionaire or its employee (e.g. expenses incurred in accidents involving the Concessionaire or its employees where such accidents were due to the Concessionaire's or its employees' gross negligence); and 10. Other Miscellaneous costs deemed excluded in the conduct of the audit subject to prior discussion with Concessionaire.
5.26.4. RECLASSIFICATION	<p>5.26.4.1. For regulatory purposes:</p> <ol style="list-style-type: none"> 1. Any expenditure related to employee's activities i.e. employee recognition awards, bereavement assistance, employee benefits under the approved Collective Bargaining Agreement, sports activities, team building, annual events celebrations i.e. Christmas, anniversaries and the like, as well as funding of organizational hobbies and other employees activities that are classified under Miscellaneous account shall be reclassified as Salaries, Wages and Benefits. Any expenditure of such nature classified as Miscellaneous would be excluded. 2. Any expenditure that does not conform under the nature of Miscellaneous shall be reclassified to its proper expenditure account.

5.27. Foreign Exchange Loss/Gain on Concessionaire Loans	
5.27.1. NATURE	5.27.1.1. Foreign Currency Differential relative to Concessionaire Loans as reported in the quarterly Foreign Currency Differential Adjustment determination of the MWSS-RO.
5.27.2. GUIDELINES	5.27.2.1. The MWSS-RO shall provide the Summary of Foreign Exchange Loss/Gain relative to Concessionaire Loans for the year, being subject to audit.

5.27. Foreign Exchange Loss/Gain on Concessionaire Loans

	5.27.2.2. In addition, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.
5.27.3. CONDITIONS FOR EXCLUSIONS	<p>5.27.3.1. Foreign exchange Loss/Gain to the extent that Concessionaire Loans were used for Capital Expenditures related to the attainment of Service Obligations under the CA or Concession Fee Payment.</p> <p>5.27.3.2. Foreign Exchange Loss/Gain on Concessionaire Loss shall exclude charges such as Gross Receipt Tax, Agency Fee, Supervision Fee, Documentary tax, etc.</p> <p>5.27.3.3. Any other Foreign Exchange Loss/Gain on Concessionaire Loans deemed excluded in the conduct of the audit subject to prior discussion with Concessionaire.</p>
5.27.4. RECLASSIFICATION	5.27.4.1. For regulatory purposes, any receipt/expenditure that does not conform under the nature of Foreign Exchange Loss/Gain shall be reclassified to its proper account.

5.28. Capital Expenditures

5.28.1. NATURE	<p>5.28.1.1. Article 2.1 of the Concession Agreements, states that:</p> <p>5.28.1.2. "MWSS grants to the Concessionaires, as contractor to perform certain functions and as agent for the exercise of certain rights and powers under the Charter, the sole right to manage, operate, repair, decommission and refurbish the facilities in the Service Area, including the right to bill and collect for water and sewerage services supplied in the Service Area."</p> <p>5.28.1.3. In reference to the provisions under the CA, Capital Expenditures include capital maintenance and investments expenditures acquired by the Concessionaires which are needed for the efficient and prudent performance by the Concessionaires of its obligations.</p> <p>5.28.1.4. Concessionaires' capital expenditures based on statutory financial statement, are classified as:</p> <ol style="list-style-type: none"> Service Concession Assets; and Plant, Property and Equipment.
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5.28. Capital Expenditures

Service Concession Assets	<p>5.28.1.5. The Concessionaires account for concession arrangements with MWSS relating to service concession assets in accordance with IFRIC 12, (Service Concession Arrangement under the Intangible Asset model) which grants the Concessionaires the right (license) to charge users of public service.</p> <p>5.28.1.6. In accordance with IFRIC 12, Concessionaires' Capital Expenditures - "Service Concession Assets" reported in their respective Financial Statements are classified as follows:</p> <p>5.28.1.7. Infrastructure Projects - which refer to cost of construction of infrastructure, and upgrades/rehabilitation of existing infrastructures. These include water and sewer treatment plants, pump stations, deep wells and reservoirs, transmission and distribution/discharge mains, land, buildings and improvements, and other Expenditures directly related to the construction and installation of the asset.; and</p> <p>5.28.1.8. Concession Fee Payments – which refers to payments for MWSS debt obligations and Regulatory Cost</p> <p>5.28.1.9. Service Concession Assets are recognized to the extent that the Concessionaires receive a license or right to charge the users of the public service.</p> <p>5.28.1.10. The "Service Concession Assets" (SCA) pertain to the fair value of the service concession obligations at drawdown date and construction costs related to the rehabilitation works performed by the Concessionaires.</p> <p>5.28.1.11. SCAs are amortized using either unit-of-production (UOP) method over the projected total billable volume during the remaining term of the service concession arrangement, or using the straight-line method over the terms of the service concession arrangements.</p> <p>5.28.1.12. Cost of rehabilitation works, which includes all direct materials, labour costs, and those indirect costs related to contract performance, is recognized consistent with the revenue recognition method applied.</p> <p>5.28.1.13. Subsequent costs and expenditures related to the concession agreements are recognized as additions to Service Concession Assets at fair value of obligations at drawdown date and Cost of rehabilitation works.</p> <p>5.28.1.14. The legal title to Service Concession Assets – Infrastructure Projects, shall revert or be transferred to MWSS, as applicable, at the end of the concession period.</p>
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5.28. Capital Expenditures

Plant, Property and Equipment	<p>5.28.1.15. Concessionaires' Plant, Property and Equipment reported in their respective Financial Statements refers to General and Administrative capital expenditures which are used in support in the operations and administrative purposes that are expected to be used for more than one year.</p> <p>5.28.1.16. These are not directly related to the water / wastewater Facilities, which include office furniture and fixtures, communications equipment, health and safety equipment, transportation equipment and other assets for general and administrative purposes.</p> <p>5.28.1.17. The legal title to Plant, Property and Equipment, shall revert or be transferred to MWSS, as applicable, at the end of the concession period.</p>
5.28.2. GUIDELINES	<p>5.28.2.1. The review that only infrastructure projects that are used and useful and prudently and efficiently acquired are included in the computation of the Opening Cash Position shall be done thru CAPEX Audit.</p> <p>5.28.2.2. Review of Capital Expenditures – Plant, Property and Equipment related to infrastructure projects shall entail alternative procedures which include the following:</p> <ol style="list-style-type: none"> Review of contracts; Review of costing; Test of prudence and efficiency through CAPEX Audit; Benchmarking procedures; Reasonableness testing <p>5.28.2.3. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to perform a detailed Financial Audit related to infrastructure projects.</p> <p>5.28.2.4. Review of Capital Expenditures – Plant, Property and Equipment related to general operations and administrative purposes shall entail a detailed Financial Audit.</p> <p>5.28.2.5. Cash disbursement of Capital Expenditures – Plant, Property and Equipment shall be within the scope embodied in the relevant Business Plan. Any reprofiling or revision of actual disbursement of Capital Expenditures from the Business Plan shall require a written approval from the MWSS-RO.</p> <p>5.28.2.6. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide:</p>

5.28. Capital Expenditures

	<ul style="list-style-type: none"> a. The reconciliation of Infrastructure CAPEX, carried as Service Concession Assets per audited financial statements to actual cash disbursements, based on the classifications (Headlines) in the relevant Business Plan; b. The reconciliation of the Infrastructure CAPEX with the aggregate project cost per submission to the CAPEX Audit or CAPEX Monitoring Report; c. A reconciliation of the Property, Plant and Equipment (General and Administrative and Infrastructure Projects) showing the additions, disposals and depreciation for each asset classification for the year. d. A Schedule relative to Subdivision Turnover indicating the following: <ul style="list-style-type: none"> 1. Name of Homeowners Association (HoA) 2. Total cost of construction 3. Total collections from HoA relative to payment of the construction; 4. Total balance relative to the Subdivision Turnover for the audit period e. A summary of the construction contracts entered into for each project, the contract's cost and the costs incurred related to said contract in the prior years, in the current year, and cumulatively as of year-end (see CAPEX master list template in Section 16.8.3) f. A soft copy of all cost incurred for each project. <p>5.28.2.7. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.</p> <p>5.28.2.8. In the event that the CAAGs Regulatory Account balances derived from the statutory accounts relative to Capital Expenditure do not reconcile with other regulatory reports such as Business Efficiency Measures (BEMs), the Concessionaire shall provide the reconciliation thereof.</p>
5.28.3. CONDITIONS FOR EXCLUSIONS	<p>5.28.3.1. Unless otherwise stated, for rate setting purposes, capital expenditures shall be recoverable to the extent that meets the applicable requirement set in Section 5 of the CAAGs.</p>

5.28. Capital Expenditures	
	<p>5.28.3.2. Certain capitalized expenditures -Plant Property and Equipment that are considered non-recoverable include but not limited to:</p> <ul style="list-style-type: none"> a. Capitalized interest cost / borrowing cost; b. Capitalized cost not relevant to the operations within Specified Zone; c. Variances noted in the amounts per accounting records and amounts per supporting documents; d. Cash advances already included in Working Capital; e. Related projects disbursed that are not embodied in the latest approved Business Plan and lacks approval and consent of the MWSS-RO and MWSS Corporate Office; f. Unless approved by the MWSS-RO, any Headline and Key Investment Projects that exceeded the 15% cap of expenditures over the project cost shall be excluded; and g. Other Capital Expenditures deemed excluded in the conduct of the audit subject to prior discussion with Concessionaire. <p>5.28.3.3. Recovery of the Capital Expenditures – Plant, Property and Equipment related to infrastructure projects on hold or not in service and those held for future use as assess through the CAPEX Audit, shall be subject to the approval of the MWSS-RO and MWSS Corporate Office.</p> <p>5.28.3.4. Allowable Expenditure shall be subject to assessment of related parties / affiliates transactions to ascertain that they represent the “best value available in the market”.</p>
5.28.4. RECLASSIFICATION	<p>5.28.4.1. For regulatory purposes,</p> <ul style="list-style-type: none"> a. Concessionaires’ statutory Capital Expenditures initially classified as Service Concession Assets in accordance with IFRIC 12 shall be reclassified as follows: <ul style="list-style-type: none"> 1. Plant, Property and Equipment 2. Infrastructure Projects 3. General and Administrative 4. Concession Fee Payments b. Costs relative to capitalized information and advocacy campaign that relates to inform and communicate with stakeholders (customer, government, etc.) about its plans, programs, policies

5.28. Capital Expenditures

	<p>and developments, whether day-to-day or strategic are considered to be reclassified as Information and Publicity;</p> <ul style="list-style-type: none"> c. Cost capitalized related to the Engineering and Development representing salaries and wages of Concessionaires' employees assigned to projects shall be reclassified as Salaries, Wages and Benefits; d. Infrastructure projects under Service Concession Assets shall be reclassified as Capital Expenditure - Property, Plant and Equipment and depreciated using estimated useful life of the asset (Pre-IFRIC 12); e. Construction in Progress account shall be reported based on the respective Business Plan classification of CAPEX and the CAPEX classification developed by the "Technical Team" under Annex F-1A. f. Any expenditure that does not conform under the nature of Capital Expenditure – Property, Plant and Equipment shall be reclassified to its proper expenditure account.
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5.29. Concession Fee Payments

5.29.1. NATURE	5.29.1.1.	Concession Fee includes payments to (i) MWSS Loans pursuant to Section 6.4 of the CA, in relation to Schedule 8 of the CA and (ii) loans on existing and new MWSS projects which the MWSS is the primary obligor that are being assumed by the Concessionaires.
5.29.2. GUIDELINES	5.29.2.1.	Review of Concession Fee Payments shall include the reconciliation of the Concessionaires' record on Concession Fee Payments with MWSS Corporate Office. In addition to the schedules specified under Section 7 of the CAAGs, the Concessionaire shall provide a Schedule of Concession Fee Payments as per Annex E.
	5.29.2.2.	In view of the Schedule of Service Concession Assets pro forma under Section 7 of the CAAGs, the column of Concession Fee shall be stated at present value.
	5.29.2.3.	However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to request additional / other relevant information, identified during the course of the audit, which the Concessionaire shall



5.29. Concession Fee Payments	
	<p>provide, subject to prior discussion with the Concessionaire.</p> <p>5.29.2.4. In the event that the CAAGs Regulatory Account balances derived from the Statutory Accounts relative to Concession Fee Payments do not reconcile with other regulatory reports such as Business Efficiency Measures (BEMs), the Concessionaire shall provide the reconciliation thereof.</p>
5.29.3. CONDITIONS FOR EXCLUSIONS	<p>5.29.3.1. Concession Fee payments shall exclude unreconciled amounts with the records of MWSS Corporate Office which amounts have no adequate supporting documents.</p>
5.29.4. RECLASSIFICATION	<p>5.29.4.1. For regulatory purposes,</p> <ol style="list-style-type: none"> 1. Concession Fees payments to fund the budget of MWSS and MWSS-RO shall be reclassified as Regulatory Cost; 2. Concession Fee Payments shall be the actual amount paid by the Concessionaire to MWSS for debt service of MWSS Loans and local component costs of MWSS projects, regardless of the treatment of the transactions under PFRS. 3. Any expenditure that does not conform under the nature of Capital Expenditure - Concession Fee Payments shall be reclassified to its proper expenditure account.

6. WORKING CAPITAL	
6.1. NATURE	6.1.1. Working capital refers to the movement of the Concessionaires' assets and liabilities accounts related to the operation within its Specified Zone that has an impact in converting the Regulatory Accounts for Receipts and Expenditures to their Cash Flows values.
6.2. GUIDELINES	<p>6.2.1. Identify the revenue and operating expense related working capital accounts in the audited financial statements and request corresponding detailed transaction listing from the Concessionaires.</p> <p>6.2.2. The Concessionaires shall submit a Schedule to reconcile Statutory Accounts, net of adjustments, with their Working Capital balances. A detailed transaction listing of working capital accounts should be provided. A schedule of the balances per account with corresponding document reference should also be provided.</p> <p>6.2.3. For Rate Rebasing purposes, advances to contractors will be included in CAPEX.</p>
6.3. CONDITIONS FOR EXCLUSIONS	<p>6.3.1. Receipts-related working capital accounts shall exclude the movement relative to the following:</p> <ol style="list-style-type: none"> 1. VAT portion related to trade receivable 2. Non-Trade Receivables not associated with any regulatory accounts for receipts; 3. Receivables from Subsidiaries and affiliates; 4. Receivables from Employees; 5. Allowance for bad debt except transactions relative to write-off and recovery; 6. Other assets with corresponding revenue accounts that are not related to the attainment of Service Obligation within the Specified Zone. <p>6.3.2. Operating Expense related working capital shall exclude the movement relative to the following:</p> <ol style="list-style-type: none"> 1. Accruals relative to interest, concession fees, etc; 2. Deferrals relative to liabilities, concession fees, credits, Forex Revaluation; 3. VAT payable; 4. Other current payables relative to employee deductions, dividends payable, deductions from suppliers and contractors; 5. Prepayments not related to Regulatory Accounts for Operating expenditures, Capital expenditures and Concession Fees;



6. WORKING CAPITAL

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| | <ul style="list-style-type: none"> 6. Advances to Subsidiaries and affiliates; 7. Service concession assets and liabilities relating to payments of Regulatory Cost and Concession Fees; 8. Other assets and liabilities not related to the attainment of Service Obligations within the Specified Zone. <p>6.3.3. Other adjustments to the Working Capital, the MWSS-RO and/or its commissioned auditor(s) may find necessary during the course of the regulatory Financial Audit, subject to discussions during exit conference with the Concessionaire.</p> |
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7. INFORMATION REQUIREMENTS

7.1. BASIS	<p>7.1.1. The Concessionaire shall also provide such other information as the MWSS-RO may reasonably request or as the Concessionaire may wish to provide. (Article 9.4.1)</p> <p>7.1.2. The Concessionaire's shall have a general duty to provide to the MWSS-RO all information that the MWSS-RO may reasonably require in order to permit the Regulatory to monitor the performance of the Concessionaire in relation to its obligations under this Agreement. (Article 13.1)</p> <p>7.1.3. The Concessionaire shall provide to the MWSS-RO not later than 60 days following the end of each calendar year a report of the financial performance of the Concession. Such report shall include (i) an analysis of revenue by source and revenue from other sources (ii) an analysis of operating costs which distinguishes between water supply, sewerage and other services, (iii) an analysis of capital expenditures and investments which distinguishes between water supply, sewerage and other services, and (iv) the other information, as such Schedule may be revised by the Regulatory Office from time to time. (Article 13.1.2)</p> <p>7.1.4. No less frequently that once a year, the Concessionaire's books and records shall be audited by an independent auditor appointed by or acceptable to, the Regulatory Office, pursuant to internationally accepted accounting practices. In addition, the Regulatory Office may, upon giving not less than 15 days' prior written notice to the Concessionaire, require that the Concessionaire's books and records relating to the Concession be audited on an interim basis by the Regulatory Office or by an outside auditor. The Concessionaire shall cooperate fully with all such audits. (Article 13.2)</p>
7.2. PURPOSE	<p>7.2.1. The information to be provided by the Concessionaire to the Regulatory Office is intended to enable the Regulatory Office to:</p> <p>7.2.2. To exercise its functions embodied in Exhibit A of the CA to which shall require:</p> <p>7.2.2.1. Reconciliation of the Concessionaires' respective statutory financial statements with its regulatory accounting and other regulatory reports;</p> <p>7.2.2.2. Comparison of actual Receipts and Expenditure of the Concessionaires during the relevant regulatory period against forecast expenditure and revenue embodied in the relevant approved Business Plan;</p>

7. INFORMATION REQUIREMENTS

	<p>7.2.2.3. Aid and support the forecast of efficient and prudent expenditure for the subsequent regulatory period.</p> <p>7.2.2.4. Conduct a detailed Financial Audit that addresses the objective set in Section 1 of the CAAGs.</p> <p>7.2.3. Monitor and access compliance with all arrangements relating to the regulation of the Concessionaires which are in place from time to time.</p>
7.3. GUIDELINES	<p>7.3.1. A Concessionaires shall prepare regulatory accounting schedules, also known as General Ledger (GL) Listings, in accordance with the GL Listing template;</p> <p>7.3.2. The Concessionaires shall submit to the Regulatory Office their respective policies and procedures for the identification and / or allocation, and adjustment of transactions and amounts attributable to operations outside the Specified Zone.</p> <p>7.3.3. The Concessionaire shall provide explanatory notes relevant to the information embodied in the regulatory accounting schedules;</p> <p>7.3.4. Concessionaires shall submit regulatory accounting schedules to Regulatory Office in hardcopy and electronic format;</p> <p>7.3.5. Concessionaires shall provide copies of supporting documents as identified in each Regulatory Account of the CAAGs which shall be used in carrying out the detailed Financial Audit.</p>
7.4. NATURE	<p>7.4.1. In addition to the required Schedules and supporting documents specified in each specific regulatory account stated herewith, the Concessionaire shall likewise provide the MWSS-RO and/or its commissioned auditor/s the following annual Schedules:</p> <ol style="list-style-type: none"> 1. Concessionaires' respective Statutory trial balance (e.g. Prior and Current Period); 2. Computation of Net cash flow for the year using the Regulatory Account balances; 3. Schedule of Reconciliation of Statutory Income Statement to Regulatory Accounts Income Statement (Annex A and Its sub-annexes). 4. Schedules specified under Section C; 5. Other required Schedules identified in each specific regulatory account as stated in the CAAGs; and



7. INFORMATION REQUIREMENTS

	6. Other Schedules identified during the course of the audit, which the Concessionaire shall provide, subject to prior discussion with the Concessionaire.
7.5. FREQUENCY OF REPORTING	<p>7.5.1. Except for schedules identified during the course of the audit and those specified under each Regulatory Account of the CAAGs, the Concessionaire shall submit to the MWSS-RO not later than:</p> <p>7.5.1.1. thirty (30) calendar days after the 4th month following the end of each calendar year, the annual schedules as mentioned above;</p> <p>7.5.1.2. thirty (30) calendar days following the end of each calendar quarter a quarterly Schedule of Reconciliation of Regulatory Accounts with Business Efficiency Measures (BEMs) reporting. This shall form part of the quarterly submission of financial statements.</p> <p>7.5.2. The Concessionaire shall make the supporting documents and other schedules identified under each Regulatory Account of the CAAGs, readily available upon the commencement of the audit.</p> <p>7.5.3. The submission of the policies and procedures for the identification and / or allocation, and adjustment of transactions and amounts attributable to operations outside the Specified Zone shall be made within 30 days from the approval of the CAAGs. Provided that subsequent updates or changes to such policies and procedures shall be submitted with Section 7.5.1.</p> <p>7.5.4. Notwithstanding that the above schedules are required to be submitted annually under the CAAGs, the Concessionaires are encouraged to submit the same schedules in support of their quarterly financial reports.</p>

8. AUDIT	
8.2. OBJECTIVE	8.2.1. The primary objective of the audit is to ensure that the balances of the Regulatory Accounts identified by the Concessionaires that shall be included in respective Opening Cash Position (OCP) are valid, reasonable, or efficiently and prudently incurred in the course of carrying out their service obligations under the Concession Agreements.
8.3. SCOPE	<p>8.3.1. The audit shall also entail an understanding of the relevant transaction cycles and activities that lead to the generation and submission of the financial reports and identification of risk areas that may lead to material misstatements of Regulatory Accounts.</p> <p>8.3.2. Unless otherwise stated, the Financial Audit encompasses all Receipts and Expenditures incurred, submitted by the Concessionaires to be reflected in the Opening Cash Position.</p> <p>8.3.3. Regulatory Accounts not subjected to any Reward and Penalty framework shall undergo a detailed Financial Audit using applicable requirement set in Section 5 of the CAAGs and the specific Conditions for Exclusions identified per Regulatory Account, otherwise they shall be audited only for their completeness, as reconciled from the statutory accounts, in order that they shall be readily available for use in their respective Rewards and Penalty framework. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to perform a detailed Financial Audit related to Receipts and Operating Expenditures.</p> <p>8.3.4. Expenditures for Capex subjected to CAPEX Audit shall only be audited for their completeness, as reconciled from the statutory accounts, otherwise these shall be audited using applicable requirement set in Section 5 of the CAAGs and the specific Conditions for Exclusions identified. However, if warranted by public concern, public health, public interest, public policy, public welfare or national security, the MWSS-RO and/or its commissioned auditor(s), is/are not precluded to perform a detailed Financial Audit related to infrastructure projects which are subjected to CAPEX Audit.</p> <p>8.3.5. Working Capital that pertains to Regulatory Accounts for Receipts and Expenditures shall be audited for completeness, as reconciled from the Statutory Accounts.</p>
8.4. RESPONSIBILITY	<p>8.4.1. The auditor shall have the following responsibilities:</p> <p>8.4.1.1. Understanding the operations of the Concessionaires, particularly the relevant transaction cycles that generate the financial information leading to the submission of the</p>

8. AUDIT

	<p>regulatory reports including BEMs, documenting those cycles and identifying risk areas that may lead to material misstatements of the Regulatory Accounts and incorporating these in the preparation of the audit plan;</p> <p>8.4.1.2. Conduct of financial audit process, including scoping and sample selections, inspection and examination of supporting documents and summarizing results;</p> <p>8.4.1.3. Provide regular progress report to the Regulatory Office detailing status of audit request (e.g. date of receipt, document flow), possible adjustments or exclusions, and results of preliminary discussions held with Concessionaires;</p> <p>8.4.1.4. Conduct conferences (including exit conferences) with the Concessionaires to discuss the adjustments and/or further exclusions and/or inclusions from the submitted Regulatory Account balances, and obtain the official response of the Concessionaires to each of the audit findings; and</p> <p>8.4.1.5. Submit and present the final detailed audit report containing the recommended balances for the Regulatory Accounts and Working Capital, the summary and details of findings and the corresponding responses of the Concessionaires and the auditor's recommendation for future audits.</p>
<p>8.5. GUIDELINES</p>	<p>8.5.1. The parameters that shall be used in the inclusion or exclusion of Regulatory Account items are embodied in Section 5 of the CAAGs and in each specific Regulatory Account. In applying these parameters, the auditor(s) is/are required to exercise its independent judgement, considering its discussions with the Regulatory Office and the Concessionaires.</p> <p>8.5.2. The auditors may adopt new parameters as it deems necessary, in accordance with regulatory best practices, subject to initial discussions with the Concessionaires and disclosure of the same in the earliest progress report to the Regulatory Office.</p> <p>8.5.3. The final detailed audit report is recommendatory in nature. The Regulatory Office shall exercise its discretion on the matters recommended by the auditor(s).</p>
<p>8.6. AUDIT METHODOLOGY</p>	<p>8.6.1. For a more effective and efficient audit, an audit methodology is adopted. The audit methodology involves the following phases:</p> <ol style="list-style-type: none"> 1. Planning; 2. Execution; 3. Conclusion and Reporting <p>Planning</p>

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8.6.2. The auditor shall develop the overall audit plan to address the objectives of the CAAGs as discussed herein.

8.6.3. In planning the audit, the auditor shall consider its assessment on the risks of material misstatement of the Regulatory Accounts through understanding the Concessionaires and their environment.

8.6.4. During the planning phase, the auditor shall:

1. Obtain an understanding of the business and its industry, regulations, taxation and relevant accounting standards. The auditors shall be able to understand the CAs, IFRIC 12, among others;
2. Obtain an understanding on the IT environment; and
3. Obtain an understanding of the Concessionaires' policies and procedures.

Execution

8.6.5. The audit shall be as extensive as possible, to cover as much of the balance of the Regulatory Accounts being audited. However, in performing the audit procedures, the auditor shall consider the cost and benefit of those procedures to ensure that the objectives of the audit are met within the time allocated for the field work. For this purpose, the auditors may conduct the audit through the following:

8.6.5.1. Substantive testing of transactions where the auditor in their cost-benefit analysis of the procedures may apply the principles of Materiality in the selection of their samples.

8.6.5.2. In addition to audit procedures in each Regulatory Accounts stated herewith, substantive testing of transactions includes among others the following:

1. vouching of transactions to supporting documents such as billing statements, official receipts, purchase orders and vouchers, among others, to test the existence, occurrence and values of the account balances;
2. tracing of transactions from the supporting documents to the reports to test the completeness and cut-off of account balances;
3. testing of reasonableness;
4. re-performance and re-computation to check accuracy; and
5. other substantive tests and techniques that the auditor deems necessary to be performed during the conduct of the audit.

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8.6.5.3. Performing computer assisted audit techniques in testing balances composed voluminous data with relatively small balances;

8.6.5.4. Review of contracts and agreements and using the provisions thereon to validate the transactions of the Regulatory Accounts and;

8.6.5.5. Analytical procedures or evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.

Communication of Audit Findings

8.6.6. The audit team shall communicate its audit findings to the Concessionaires' concerned personnel on a timely manner during the course of the audit execution to facilitate timely resolution. The audit team shall ensure that audit findings are factual and are properly supported.

Documentation

8.6.7. The auditors shall completely document the entire audit process including communications. In applying the necessary judgement, the auditors shall ensure that these are supported by audit evidence.

8.6.8. The auditors shall document the following which includes among others the following:

1. Audit procedures;
2. Materiality determination;
3. Findings;
4. Concessionaires responses;
5. Auditors counter-response; and
6. Recommendations

8.6.9. The auditor shall submit and/or forward to the MWSS-RO all the schedules, working papers, analysis, calculations, communications, minutes of meetings and supporting documents relevant to the conduct of the Financial Audit

Conclusion and Reporting

8.6.10. The auditors shall communicate its recommendations and audit findings on the Regulatory Accounts through audit memoranda with the Concessionaires.

8.6.11. In conclusion of the field work, the auditors shall formally discuss the audit memoranda, resolve issues and express commitments, if any, to justify and correct findings, if appropriate. In this phase, the auditor shall document the response of the Concessionaires to auditors' findings and recommendations, and resolved issues, if any. Regulatory



8. AUDIT

Office personnel may attend the Exit Conference as observers.

9. MISCELLANEOUS

9.1. Conflict Resolution	9.1.1.1. Relative to any unresolved issues raised, the resolution of the issue shall be in accordance with the dispute resolution mechanism provided in the CA.
9.2. Effectivity	9.2.1.1. CAAGs shall be applied to the Cash Flows of the Concessionaires starting July 2012.
9.3. Severability	9.3.1.1. The invalidity or unenforceability of any provision or any portion shall not affect the application of any other provision or portion which is independent thereof which shall continue to be in full force and effect.

C. MAJOR SCHEDULE TEMPLATES

The major Schedule Templates enumerated below were developed by the MWSS-RO TWG primarily to aid the reconciliation of the statutory financial statements of the Concessionaires with the Regulatory accounts in consideration with CAAGs and other regulatory reports submitted to the MWSS-RO. The MWSS-RO, from time to time may revise these templates and/or develop or require additional schedules deemed necessary in the future.

Annex	Name of Schedule
A-1	Opening Cash Position (OCP) Computation Template
A-2	General Ledger listing template
B-1	Audited Financial Statement – Balance Sheet (AFS-BS) template
B-2	Audited Financial Statement – Income Statement (AFS-IS) template
C-1	Revenue and Operating Expenses Template
C-2	Revenue and Operating Expenses Adjustments Template
C-3	Schedule of Salaries, Wages and Benefits
C-4A	Schedule of Working Capital template
C-4A1	Working Capital Adjustment template
C-4B	Working Capital – Types of transactions template
D	Schedule of Reconciliation of Regulatory Accounts with Business Efficiency Measures (BEMs)
E	Schedule of Concession Fee Payments
F-1	Schedule of Service Concession Assets
F-2	Schedule of Plant, Property and Equipment
F-3	Schedule of CAPEX template
F-3A	CAPEX Adjustment template
F-4	Proceeds from Sales template
F-5	CAPEX Master List Template
G	Schedule of Transactions with Affiliates
H	Basis for Forecast Template

OPENING CASH POSITION (OCP) COMPUTATION TEMPLATE

Regulatory Account (All figures in millions of Pesos) ¹	Reference ²	2018 ^{3, 4}	2018 ^{3, 4}	2018 ^{3, 4}	2018 ^{3, 4}	2018 ^{3, 4}	
		Actual	Actual	Actual	Actual	Actual	Projected
						As of June 30, 2022	
Receipts (current prices)							
Water Revenue	Annex A	Pxx	Pxx	Pxx	Pxx	Pxx	Pxx
Environmental Revenue	Annex A	xx	xx	xx	xx	xx	xx
Sewer Revenue	Annex A	xx	xx	xx	xx	xx	xx
Miscellaneous Revenue	Annex A	xx	xx	xx	xx	xx	xx
Guaranty Deposits⁶	AFS-BS	xx	xx	xx	xx	xx	xx
Total Revenue		Pxx	Pxx	Pxx	Pxx	Pxx	Pxx

1/ Amounts are stated in rounded number however. the whole number should be preserved.

2/ Indicate which Annex/schedule support the amount presented. Concessionaire may opt to provided additional schedule to support such.

3/ Indicate if amounts presented are actual (based on audited financial statements) or forecasted.

4/ The amounts should be linked to the Annex / schedule referred, except for the year(s) with forecasted amounts.

5/ For the year(s) with forecasted amounts, these amounts should be linked to the Basis of Forecast.

6/ Guaranty Deposits should form part of the regulatory receipts.



ANNEX A-1

GENERAL LEDGER LISTING TEMPLATE

Document Type ¹	GL Account Code ^{1,2}	Year ¹	Posting Date ¹	Document Number ¹	Cost Center Facility ¹	Text ^{1,3}	Payee ¹	Amount ¹
								P xxx
								xxx
TOTAL⁴								P xxx

1/ Information is per Concessionaire's accounting system

2/ Should the Concessionaire have a change in the GL account code during the RR period, both old and new account codes must be presented

3/ The text should properly describe the purpose/nature of the transaction.

4/ Total amount should tie-up with regulatory balance in Annex C-1 for revenue/OPEX accounts or Annex C-4A for working capital accounts.

ANNEX B-1

Audited Financial Statements Balance Sheet (AFS-BS) Template

GL Account Code	Account Name	2017	2018	2019	2020	2021	2022
Assets							
Current Assets							
Cash and Cash Equivalents							
000001 ¹	Cash in Bank ¹						
000002 ¹	Cash on Hand ¹						
Total Cash and Cash Equivalent ²							

1/ Present the sub-accounts that make – up the AFS – BS account.

2/ Total of the sub-accounts should be equal to the amount presented in the AFS.



ANNEX B-2

Audited Financial Statement Income Statement (AFS-IS) Accounts Template

GL Account Code	Account for CAAGs (Regulatory Account)	GL Account Name	2017	2018	2019	2020	2021	2022	Total (2018-2022)	Average (2018-2022)
Cost of Services										
Other/Miscellaneous Expenses										
500001²	Repairs and Maintenance ²	RM Pt Repair Leak ²								
500002²	Wastewater Costs ²	Sludge Disposal ²								
Total Other/Miscellaneous Expense³										

1/ The presentation/classification of the IS accounts should be in accordance with CAAGs.

2/ Present the sub-accounts that make up the AFS – IS Accounts

3/ Total of the subaccounts should be equal to the amount presented in the AFS

ANNEX C-1

REVENUE AND OPERATING EXPENSES TEMPLATE

GL Account code	Account Per AFS ¹	GL Account Name	20xx						
			Per Audited FS ²	Voluntary adjustments ³	Regulatory Balance ⁴	Service Activity ⁵			GAE
						CPF	Water	Waste-water	
Revenue			P xx		P xx	P xx	P xx	P xx	P xx
Water Revenue⁴			xx		xx	xx	xx	xx	xx
400001	Water Revenue	Water Revenue – OCP	xx		xx	xx	xx	xx	xx
400002	Water Revenue	Water Revenue – NOCP	xx	(xx)	-				
400003	Other Revenue	Water Revenue - Others	xx	(xx)	xx	xx	xx	xx	xx

1 / Indicate which account the subaccount was originally from per AFS. This is to identify subaccount reclassifications when preparing the regulatory balance.

2 / Amounts in this column should be linked to the AFS-IS

3 / Amounts in this column should be linked to Annex C-2

4 / The total revenues (water, environmental, sewer and miscellaneous revenue) and OPEX of the Regulatory Balance column for each year should be linked to the OCP computation

5 / Regulatory balance should be broken down into the following service activities; common purpose facilities (CPF), water, wastewater and general and administrative expenditures (GAE)

ANNEX C-2

Revenue and OPEX Adjustments template

Adjustment No. ¹	Year ²	GL Account code	Regulatory Account	Account Name	Debit ³	Credit ³	Description of Adjustments ⁴	Other Remarks ⁵
1	20xx	400002	Water Revenue	Water Revenue – NOCP	P xx		Outside specified zone	
1	20xx	000001	Cash	Cash in Bank		P xx	Outside specified zone	
2	20xx	400002	Water Revenue	Water Revenue – NOCP	xx		Outside specified zone	
2	20xx	100001	Receivables	Trade Receivable		xx	Outside specified zone	
3	20xx	400003	Salaries	Basic Salary	xx		Accrual	
3	20xx	100001	Contracted Services	CS-Admin		xx	Accrual	
4	20xx	500001	Salaries	Basic Salary	xx		Reclassification	
4	20xx	500002	Contracted Services	CS – Admin		xx	Reclassification	

1/ Assign a no. for each adjustment.

2/ Indicate which year each adjustment affects.

3/ Amount in the Debit and Credit columns should be linked to Annex C-1

4/ Show a brief description of the nature of the adjustment (e.g. outside specified zone, concession agreement provision, reclassification, voluntary adjustment as per CAAGs provisions).

5/ Concessionaire's remarks on the adjustment

6/ If an adjusting entry affects a working capital account or a capital expenditures (CAPEX), that entry should also appear in Annex C-4A1 – Working Capital (WC) Adjustments or Annex F-3A - CAPEX adjustments, respectively.

ANNEX C-3

Schedule of Salaries, Wages and Benefits As Regulatory Account

Description	Reference	Amount	Legend ¹⁶	Statutory Account Classification	Regulatory Account Classification

Summary:

	Total Amount
Salaries, Wages and Benefits	
Employees Benefits	
Employees Activities	
Grand total – Regulatory Account Salaries, Wages and Benefits	

¹⁶ EA – Employee Activities; EB – Employee Benefits; PB – Performance Bonuses



ANNEX C-4A

WORKING CAPITAL TEMPLATE

GL Account Code	Account per AFS ¹	GL Account Name	20xx		
			Statutory Movement ²	Voluntary Adjustment ³	Regulatory Movement ⁴
Working Capital Changes			P xx		P xx
Assets			xx		xx
100001	Receivable	Trade Receivables	xx	(xx)	xx
100002	Receivable	Trade Receivables –NOCP	xx	(xx)	-

^{1/} Indicate which account the subaccount was originally from per AFS

^{2/} Amounts in this column should be linked to the AFS-BS

^{3/} Amounts in this column should be linked to Annex C-4A1

^{4/} The total working capital regulatory movement for each year should be linked to the OCP computation.

ANNEX C-4A1

WORKING CAPITAL ADJUSTMENT TEMPLATE

Adjustment No. ¹	Year ²	GL Account code	Regulatory Account	Account Name	Debit ³	Credit ³	Description of Adjustments ⁴	Other Remarks ⁵

1/ Assign a no. for each adjustment.

2/ Indicate which year each adjustment affects.

3/ Amount in the Debit and Credit columns should be linked to Annex C-4A

4/ Show a brief description of the nature of the adjustment (e.g. outside specified zone, concession agreement provision, reclassification, voluntary adjustment as per CAAGs provisions).

5/ Concessionaire's remarks on the adjustment

6/ If an adjusting entry affects a working capital account or a capital expenditures (CAPEX), that entry should also appear in Annex C-4A - Working Capital (WC) Adjustments or Annex F3 - CAPEX adjustments, respectively.

ANNEX C-4B

**Working Capital
Types of Transactions Template**

Year¹	GL Account Code^{1, 2}	Nature of Transaction³	Amount¹
			P xx
			xx
Total			P xx

1/ Information is per Concessionaire's accounting system

2/ Should the Concessionaire have a change in the GL account code during the RR period, both old and new account codes must be presented.

3/ The text should properly describe the purpose / nature of the transaction outstanding as of year-end.

4/ Total amount should tie-up with the statutory balance in AFS - BS

ANNEX D

Name of Concessionaire

Reconciliation of Statutory Accounts vs. BEMs

Period Covered

Quarterly/Annual

PARTICULARS	Prior Period	Current Period
Salaries, Wages and Benefits		
Salaries, Wages and Benefits - Statutory		
Adjustments:		
Outside Specified Zone		
Provision-CA i.e non cash transactions		
RO Exclusions		
Expense Account reclassified as Labor cost (specify)		
Other Adjustments (specify)		
a.		
b.		
Per Regulatory Accounts		
Adjustments: (if applicable)		
a.		
b.		
Per Business Efficiency Measures Report (BEMs)		
Power		
Power - Statutory		
Adjustments:		
Outside Specified Zone		
Provision-CA i.e non cash transactions		
RO Exclusions		
Expense Account reclassified as Power cost (specify)		
Other Adjustments (specify)		
a.		
b.		
Per Regulatory Accounts		
Adjustments: (if applicable)		
a.		
b.		
Per Business Efficiency Measures Report (BEMs)		



ANNEX D

Name of Concessionaire

Reconciliation of Statutory Accounts vs. BEMs

Period Covered

Quarterly/Annual

PARTICULARS	Prior Period	Current Period
Uncontrollable Operating Expense		
Total Operating Expenditures - Statutory		
Less:		
Taxes, Licenses and Fees		
Regulatory Cost		
Performance Bond		
MWSS Rentals		
Labor		
Power		
Uncontrollable Operating Expense - Statutory		
Adjustments:		
Outside Specified Zone		
Provision-CA i.e non cash transactions		
RO Exclusions		
Expense Account reclassified (specify)		
Other Adjustments (specify)		
a.		
b.		
c.		
d.		
Uncontrollable Opex - Regulatory		
Adjustments: (if applicable, specify)		
1.		
2.		
3.		
4.		
Per Business Efficiency Measures Report (BEMs)		

ANNEX E

Name of Concessionaire

Schedule of Concession Fee Payments

As of _____

	Year	Date Paid	Loan	Project	MWSS Official Receipt	Service Activity ¹	Debt Service					Regulatory Cost recorded as		
							Principal	Interest	Guarantee Fee / Commitment Fee	Local Component	Total Debt Service ²	CAPEX	Expense ³	Liability
1.	Beginning Balance													
2.	20xx	xx/xx/20xx	ABC 1234	Angat	180001	Water	xx	xx			xx			
3.	20xx	xx/xx/20xx	Local component	Bank charges	180002	GAE				xx	xx			
4.	20xx	xx/xx/20xx	Regulatory Fees		180003	Waste- water					xx	xx	xx	xx
5.	20xx	xx/xx/20xx	Guaranty Fees	Various Loans	180004	CPF			xx		xx			
6.	20xx	xx/xx/20xx												
7.	TOTAL ^{2;3}						xx	xx	xx	xx	xx	xx	xx	xx

^{1/} Identify the service activity of each concession fee (CPF, water, wastewater and GAE)

^{2/} The bottom figure of the Total Debt Service column for each year should be linked to the OCP computation.

^{3/} The bottom figure of the Regulatory cost recorded as Expense column under Regulatory Cost should equal the regulatory balance of regulatory cost in Annex C-1 for each year.



ANNEX F-1

Name of Concessionaire

Schedule of Service Concession Assets

As of _____

Description	Particulars (e.g. Project No; Loan No. etc.)	Classification Code (Business Plan)	Date of transaction	Capitalized Cost of construction of infrastructure and upgrades/rehabilitation of existing infrastructure.						Concession Fee (including Commencement fee)		
				Included in the Project Cost			<u>NOT</u> included in the Project Cost					
				CPF	Water Service Activity	Wastewater Service Activity	CPF	Water Service Activity	Wastewater Service Activity	CPF	Water Service Activity	Wastewater Service Activity
Beginning Balance per Statutory Financial Statements (Gross)												
Additions: (specify)												
Disposals: (specify)												
Ending Balance per Statutory Financial Statements (Gross)												



Annex F-2

Name of Concessionaire

Schedule of Plant, Property and Equipment

As of _____

Description	Date of Acquisition / Disposal	Classification Code (Annex E-1)	Capitalized Cost of General and Administrative Capital Expenditures				
			ACTIVITY				TOTAL
			CPF	Water Service	Wastewater Service	General and Administrative	
Beg. Balance (Gross)							
Additions:							
Disposals							
Ending Balance (Gross)							

ANNEX F-3

CAPEX Template

GL Account Code	Account per AFS	GL Account Name	20xx						
			Movement ¹	Voluntary Adjustments ²	Regulatory Movement ³	Pillar ⁴			
						Service Continuity	Water Security	Service Accessibility	Environmental Sustainability

1/ Amounts in this column should be linked to the AFS-BS

2/ Amounts in this column should be linked to Annex F-3A

3/ The bottom figure of the Regulatory Movement column for year each should be linked to the OCP computation

4/ Regulatory movement should be broken down into the following pillars; service continuity, water security, service accessibility and environmental sustainability.

ANNEX F-3A

CAPEX ADJUSTMENT TEMPLATE

Adjustment No. ¹	Year ²	GL Account code	Regulatory Account	Account Name	Debit ³	Credit ³	Description of Adjustments ⁴	Other Remarks ⁵

1/ Assign a no. for each adjustment.

2/ Indicate which year each adjustment affects.

3/ Amount in the Debit and Credit columns should be linked to Annex F-3

4/ Show a brief description of the nature of the adjustment (e.g. outside specified zone, concession agreement provision, reclassification, voluntary adjustment as per CAAGs provisions).

5/ Concessionaire's remarks on the adjustment

6/ If an adjusting entry affects a working capital account or a capital expenditures (CAPEX), that entry should also appear in Annex C-4A – Working Capital (WC) Adjustments or Annex F-3 - CAPEX adjustments, respectively.

ANNEX F-4

PROCEEDS FROM SALES TEMPLATE

Year	Account per AFS	Net Book Value	Proceeds	Other Remarks
20xx	Office Equipment	P xx	P xx	
20xx	Transportation Equipment	xx	xx	
20xx	Leasehold Improvements	xx	xx	
TOTAL¹			P xx¹	

1/ Total proceeds should be linked to the OCP computation.

ANNEX F-5

CAPEX MASTERLIST TEMPLATE

	Year ¹	Description ¹	Location / Facility	Type ²	Classification ³	PS No. ¹	Contract Description	Contractor	Contract Cost	Cost carried forward from Previous Period	Project Cost (Per Regulatory Balance) ¹	Cost as of Date	Status ⁴
1	Service Continuity ⁵												
2	Water Security ⁵												
	TOTAL ⁶												

^{1/} Information is per Concessionaire's accounting system

^{2/} The Concessionaires must identify the CAPEX projects as either internal or Concession Fees (Confees)

^{3/} The concessionaire must identify the CAPEX projects as either Service Concession Assets (SCA) or Property, Plant and Equipment (PPE)

^{4/} The Concessionaires must indicate the status of the CAPEX projects as of year-end. Definition of suggested status is shown below:

- a) Ongoing – CAPEX project is in the process of being completed as of year-end
- b) Suspended – completion of CAPEX project is suspended during as of year-end
- c) Completed – CAPEX project is completed as of year-end
- d) Additional – Additional cost capitalized for CAPEX project that was already completed

^{5/} The Concessionaires should indicate which classification per forecast the CAPEX projects pertain to.

^{6/} Total amount per year should tie-up with regulatory movement of CAPEX per Annex F-3 in the Financial Model.

**ANNEX G****Name of Concessionaire**

Schedule of Transactions made with Affiliate Companies

As of _____

Date of Transaction	Payee	Description/Nature of transaction	Purpose	Procurement Method*	Amount			
					Water Service Activity	Wastewater Service Activity	General and Administrative Activity	TOTAL

*PB – Bidding, DC – Direct contracting, N – Negotiated

ANNEX H

Basis for Forecast Template

Account ¹	Factors considered ²				Computed Forecast ^{3,4}	Concessionaire's Remarks ^{4,5}
	(a)	(b)	(c)	(d)		
Revenue and Receipts						
Water Revenue	xx	Pxx			xx	Forecast is computed by multiplying (a) forecasted billed volume (mcm) and (b) tariff rate
Miscellaneous Revenue ⁶					xx	Consists of disconnection fees, reconnection fees and lab testing
Disconnection Fees	xx	xx%	Pxx		xx	Forecast is computed by multiplying (a) forecasted number of connections, (b) forecasted % of disconnections based on number of connections and (c) disconnection fee rate.
Reconnection Fees	xx	xx%	xx%	Pxx	xx	Forecast is computed by multiplying (a) forecasted number of connections, (b) forecasted % of disconnections based on number of connections, (c) forecasted % of reconnections based on disconnections and (d) reconnection fee rate
Lab Testing	Pxx	Pxx	Pxx	Pxx	xx	Forecast is computed by adding the average increase of lab testing based on the previous years (a – 2019, b – 2020 c – 2021, d – 2022) and (d) the balance as of 2022.
Total Revenue and Receipt					Pxx	

1 / All accounts that were forecasted in the OCP computation should be listed in this column

2 / The different factors considered in the computation of the forecasted figure should be enumerated here (add/remove columns as necessary)

3 / Amounts should be linked to the factors considered. Also, these amounts should be linked to the forecasted year in the OCP computation.

4 / If the forecasted amount is hardcoded and no factor(s) for consideration was (were) enumerated, the Concessionaires must explain the reason for forecasting this amount.

5 / The Concessionaires must explain how the forecasted amount was computed using the factors considered.

6 / If the account consists of different subaccounts with different methods of computing for the forecasted amount, the Concessionaire must show the factors considered for the computation of forecasted amount for each subaccount.