



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

CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

July 29, 2022

THE BOARD OF TRUSTEES

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

RECEIVED

2022 -07- 29


Dannielle Marie A. Troyes, CPA

Dear Members of the Board:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the **Metropolitan Waterworks and Sewerage System (MWSS)** for the years ended December 31, 2021 and 2020.

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

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of MWSS for the years ended December 31, 2021 and 2020 due to the following:

1. The Property, Plant and Equipment (PPE) - Service Concession Assets (SCA) and Deferred Service Concession Revenue (DSCR) accounts with carrying amounts of P216.331 billion and P188.851 billion, respectively, as at December 31, 2021, are materially misstated due to the following errors and deficiencies, contrary to International Public Sector Accounting Standards (IPSASs) 1, 3 and 32, which adversely affected the faithful representation of the accounts in the financial statements, to wit: a) non-disclosure of the PPE SCA account in the CY 2021 Notes to Financial Statements for the restatements made for the prior period errors and the CY 2020 transactions totaling P198.918 billion; b) understatement of the SCA and DSCR accounts due to the non-recognition of the SCA of the Bulacan Bulk Water Supply Project (BBWSP) amounting to P6.178 billion; c) understatement of the Service Concession Revenue (SCR) and overstatement of DSCR by an estimated amount of P5.677 billion due to non-amortization of the DSCR account; d) understatement of the related Depreciation Expense and Accumulated Depreciation of PPE - SCA at an estimated amount of P1.688 billion; e) understatement of the SCA and DSCR accounts due to the non-recognition of the General and Administrative Equipment (GAE) of the concessionaires; f) discrepancy of SCA account amounting to P24.577 billion between the CY 2021 financial statements and the general ledger (GL); and g) absence of the List of Inventory of SCA and the relevant documents necessary to establish the validity and completeness of the recognition of SCA and related accounts in CY 2020 amounting to P198.918 billion and the CY 2021 additions amounting to P23.520 billion.
2. The Other PPE account amounting to P15.606 billion are materially misstated due to the following errors and deficiencies, contrary to paragraph 27 of IPSAS 1, paragraph 14 of IPSAS 17 and COA Circular No. 80-124, hence, the account is not faithfully represented in the financial statements: a) non-disclosure of the Other PPE account in the CY 2021 Notes to Financial Statements for the restatements made for the prior period errors and the CY 2020

transactions totaling P18.995 billion; b) overstatement of the Other PPE account by an estimated amount of P71.944 million due to the non-adjustment of the CIP account for the completed projects amounting to P156.551 million and the non-recognition of the corresponding Depreciation Expense; c) unreconciled variance amounting to P24.577 billion between the balances as reported in the financial statements amounting P15.606 billion and the GL amounting P40.183 billion; d) adjustment on the land account amounting to P267.207 million remained unsupported; e) variance of P29.527 million from CY 2016 sale of unserviceable vehicles not accounted for and transferred vehicles without cost already documented, inspected and accepted by the recipient LGU, with a total net book value of P1.113 million not yet dropped from the books of accounts; f) incomplete inventory of Other PPE items for CY 2021, with P5.670 billion not inspected/counted; g) inexistent, dilapidated, non-operational and/or abandoned Office Building and Other structures amounting to P5.117 billion not adjusted; h) Certificates of title and other proofs evidencing ownership of land assets totaling P4.668 billion not yet secured; i) Other Structures with book value of P1.218 million recorded in the books but not located during the CY 2021 inventory; j) unrecorded 939 items of Other PPE under the Buildings and Other Structures account found during the CY 2021 inventory; k) various MWSS properties occupied by private individuals or taken back by the donors; l) Several deep wells (DWs) can no longer be located since either these were already demolished or other structures were already erected on the DW sites. Also, there were discrepancies in the list of DWs between the records of MWSS CO and MWCI; and m) Operations of various DWs were observed to be temporarily suspended due to water qualities, non-operational and abandoned but not yet dismantled.

3. The Accumulated Surplus/Deficit account amounting to P40.069 billion is not fairly presented due to the following material errors, omissions and deficiencies which adversely affected the faithful representation of the effects of transactions contrary to IPSASs 1 and 3: a) non-reconciliation and non-disclosure in the CY 2021 Notes to Financial Statements of the restatement of asset accounts amounting to P15.793 billion and liabilities accounts amounting to P14.768 billion; b) non-reconciliation and non-disclosure in the CY 2021 Notes to Financial Statements of the adjustments/restatements effected in the beginning balance of the Accumulated Surplus/Deficit amounting to P987.921 million resulting to an unreconciled variance amounting to P1.415 billion; c) non-reconciliation and non-disclosure in the CY 2021 Notes to Financial Statements of the restatements effected in the Income/Expense accounts resulting to understatement of the CY 2020 Net Surplus before Tax by an estimated amount of P975.998 million; and d) discrepancies in the CY 2021 Accumulated Surplus/Deficit account amounting to P439.879 million between the Statement of Changes in Net Assets/Equity and the GL.

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

1. *On PPE SCA*

Finance Department to:

- a. Obtain from the concessionaires the confirmed detailed balances of the SCA in their books as of December 31, 2021 and 2020, together with the List of Inventory items and relevant documents necessary to support the reported CYs 2020 and 2021 SCA and DSCR balances; and details and balances of the GAE being used in the operation of the service concession and recognize them in the books;
- b. Provide sufficient disclosure of the CY 2020 SCA balances in the Notes to Financial Statements;

- c. Reconcile the noted material discrepancy amounting to P24.577 billion between the SCA in the CY 2021 financial statements and the GL, and take up the necessary adjusting entries;
- d. Recognize the SCA constructed, developed or acquired by the Luzon Clean Water Development Corporation (LCWDC) being used to provide public services, and with appropriate disclosures; and
- e. Compute the correct Depreciation Expense and Accumulated Depreciation for the recognized SCA assets in the books and the correct amortization of SCR and DSCR.

2. *On Other PPE accounts*

2.1 Finance Department to:

- a. Take up the necessary correcting entries on the discrepancy of P24.577 billion between the financial statements and the GL;
- b. Review, analyze and reclassify the CIP to the appropriate PPE accounts and make the necessary adjustment on the Depreciation Expense, Accumulated Depreciation and Accumulated Surplus/(Deficit) accounts;
- c. Review and analyze the unsupported adjustment of P267.207 million on the Land account;
- d. Derecognize the transferred vehicles to LGU with book value of P1.113 million;
- e. Recognize impairment losses and allowance for impairment for the inexistent, dilapidated, non-operational and abandoned Office Buildings and Other Structures; and
- f. Provide sufficient disclosure on the CY 2020 balance of Other PPE of P18.995 billion in the Notes to Financial Statements.

2.2 Asset Management Department (AMD) to complete and submit to Finance Department the following pertinent reports and documents:

- a. Physical Inventory Report for CY 2021 including unlocated, temporarily suspended, non-operational and abandoned deep wells;
- b. Detailed Lapsing Schedule of Other PPE items for CY 2021;
- c. List of Unserviceable Properties including those turned over to MWSS and Schedule of Disposals for CYs 2020 and 2021;
- d. Documents relative to the Completed Projects remaining under the CIP Account;
- e. Copy of MWSI Manual of Procedures or Policies on Disposal and Turn-over of Unserviceable Properties to MWSS;
- f. Update on the status of the 175 land assets without titles and the 23 land titles not recorded in the books;
- g. Summary of newly acquired land for CY 2021 and those with ongoing registration proceedings;
- h. Report on various MWSS properties that were occupied by private individuals or taken back by the donors; and
- i. Update on the on-going MWSS initiatives for the crafting of guidelines for decommissioned and turned-over non-operational assets.

2.3 Finance Department and AMD to review and analyze the unrecorded additions to the Other PPE accounts found in the CY 2021 inventory and assets recorded in the books but were not found during the actual ocular inspection.

3. *On Accumulated Surplus/Deficit account*

- a. Reconcile and properly disclose all the adjustments made in the CYs 2021 and 2020 Accumulated Surplus/Deficit account including the effects of the restated accounts on comparative basis in compliance with IPSAS 3; and
- b. Reconcile the discrepancies on the balances of the CY 2021 Accumulated Surplus/Deficit between the Statement of Changes in Net Assets/Equity and the GL.

The foregoing audit observations and other significant observations, together with the recommended courses of action which were discussed by the Audit Teams with concerned Management officials and staff of MWSS Corporate Office and Regulatory Office during the exit conferences conducted on June 2 and 3, 2022, are discussed in detail in Part II of the report.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:


MA. LYDIA F. DE JOYA
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Senate President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned and Controlled Corporations
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Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

July 29, 2022

ENGR. LEONOR C. CLEOFAS, CESO IV
Administrator
Metropolitan Waterworks and Sewerage System
489 Katipunan Avenue
Balara, Quezon City

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Dannielle Marie A. Treyes, CPA

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- b. Reconcile the discrepancies on the balances of the CY 2021 Accumulated Surplus/Deficit between the Statement of Changes in Net Assets/Equity and the GL.

The foregoing audit observations and other significant observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff of Corporate Office during the exit conference conducted on June 3, 2022, are discussed in detail in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) within 60 days from receipt hereof.

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

Very truly yours,

COMMISSION ON AUDIT

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MA. LYDIA F. DE JOYA
Director IV

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CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

July 29, 2022

ATTY. PATRICK LESTER N. TY

Chief Regulator

Metropolitan Waterworks and Sewerage System

-Regulatory Office

Katipunan Avenue cor. H. Ventura Street

Brgy. Pansol, Quezon City



Dear Atty. Ty:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the **Metropolitan Waterworks and Sewerage System (MWSS)** for the years ended December 31, 2021 and 2020.

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The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of MWSS for the years ended December 31, 2021 and 2020.

The audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff of the MWSS Regulatory Office during the exit conference conducted on June 2, 2022, are discussed in detail in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report concerning the Regulatory Office be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) within 60 days from receipt hereof.

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

Very truly yours,

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