

EXECUTIVE SUMMARY

A. Introduction

Republic Act (R.A.) No. 6234 dated June 19, 1971 created the Metropolitan Waterworks and Sewerage System (MWSS) to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes at just and equitable rates. Based on its original Charter, the MWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Metro Manila, the entire province of Rizal and a portion of Cavite. R.A. No. 8041 or the National Water Crisis Act of 1995, and implemented by Executive Order No. 286 on December 6, 1995 and Executive Order No. 311 on March 20, 1996 allowed the MWSS to enter into arrangements that will result in the involvement and participation of the private sector in any or all of the segments, operations and/or facilities of the MWSS.

On February 21, 1997, the retail distribution of water was privatized through the Concession Agreement (CA) entered into with Manila Water Company, Inc. (MWCI) (East Zone) and Maynilad Water Services, Inc. (MWSI) (West Zone) while on January 15, 2016, the MWSS entered into a CA with Luzon Clean Water Development Corporation for the Bulacan Bulk Water Supply Project (BBWSP) (Province of Bulacan).

Currently, the Chairman of the MWSS Board of Trustees is Atty. Jose R. Hernandez, while the MWSS Administrator of MWSS Corporate Office (CO) is Engr. Leonor C. Cleofas and the Chief Regulator of the MWSS Regulatory Office (RO) is Atty. Patrick Lester N. Ty.

As of December 31, 2021, the MWSS CO is composed of 106 permanent employees, three co-terminus employees and 12 contractual employees while the MWSS RO is composed of 54 permanent employees and five co-terminus employees.

The MWSS CO DBM approved Corporate Operating Budget (COB) for Fiscal Year (FY) 2021 is P3.935 billion while for MWSS RO, the DBM approved COB for FY 2021 is P257.383 million.

B. Scope and Objectives of Audit

The audit covered the examination, on test basis, of the accounts and transactions of the MWSS for CY 2021 and 2020 and was conducted in accordance with the International Standards of Supreme Audit Institutions.

The audit was conducted to determine: (a) the level of assurance that may be placed on the Management's assertions on the financial statements, to enable the Auditor to render an opinion on the fairness of presentation of the financial statements; (b) the propriety of transactions and compliance with existing rules and regulations as well as Management's policies; and (c) the extent of the implementation of prior years' audit recommendations.

C. Financial Highlights

Financial Position			
	2021	2020 (As restated)	Increase (Decrease)
Assets	247,420,484,708	233,233,534,160	14,186,950,548
Liabilities	200,209,152,833	183,996,382,080	16,212,770,753
Equity	47,211,331,875	49,237,152,080	(2,025,820,205)

Results of Operations			
	2021	2020 (As restated)	Increase (Decrease)
Revenue	7,541,783,753	7,810,046,502	(268,262,749)
Current Operating Expenses	(6,770,910,149)	(6,702,356,332)	68,553,817
Surplus from Current Operations	770,873,604	1,107,690,170	(336,816,566)
Other Non-Operating Income	224,759,542	847,388	223,912,154
Gains	0	416,501,062	(416,501,062)
Losses	(1,090,890,118)	(1,271,542)	(1,089,618,576)
Other Comprehensive Loss	(5,779,291)	0	(5,779,291)
Income Tax Expense	(68,573,395)	(14,530,475)	(54,042,920)
Net Surplus/(Deficit)	(169,609,658)	1,509,236,603	(1,678,846,261)

The increase in total assets is mainly due to the additional recognition of the *Concession Assets* acquired and/or developed by the concessionaires after the commencement of the Concession Agreement in 1997; and the increase in liabilities pertains to the corresponding increase in the *Deferred Service Concession Revenue* account which represents the unearned portion of the revenue arising from the exchange of assets between the MWSS and the Concessionaires by the end of the service concession agreement amortized yearly over the economic substance of the arrangement. This was the subject of an audit observation and one of the bases for the adverse opinion for CYs 2021 and 2020.

Further, the decrease in the Revenue account pertains to the decrease in the concession fees received from the Concessionaires that are intended for MWSS loan amortization and payments to contractors/suppliers which are pass on payment without any margin in favor of MWSS.

D. Auditor's Opinion

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of MWSS for the year 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 Property, Plant and Equipment (PPE) account amounting to P15.606 billion are materially misstated due to the following errors and deficiencies, contrary to paragraph 27 of IPSAS 1 and paragraph 14 of IPSAS 17, 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 Construction in Progress (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 provide 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 Accumulated Depreciation and Accumulated Surplus/(Deficit) accounts;
- c. Review and analyze the unsupported adjustment of P267.207 million on the Land account and the variance of P29.527 million for the CY 2016 sale of unserviceable vehicles not accounted for;

- 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
- Finance Department to:
- 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 all the discrepancies noted on the balances of the CY 2021 Accumulated Surplus/(Deficit) and take up the necessary adjustments.

E. Summary of Other Significant Audit Observations and Recommendations

In addition to the above audit observations which were the bases for the rendition of an adverse opinion, the other significant audit observations and corresponding recommendations, the details of which are presented in Part II of this Report, are as follows:

1. The validity and accuracy of the Donated Capital account with year-end balance of P1.047 billion cannot be ascertained due to absence of supporting documents contrary to IPSAS 1 and PD No. 1445, which affected the fair presentation of the subject account in the financial statements.

Recommendation:

- a. Finance Department to gather documents in order to establish the validity/existence of the Donated Capital amounting to P1.047 billion.
2. The validity and reliability of the Investment Property account amounting to P1.434 billion cannot be established contrary to IPSAS 1 and 16 due to the absence of Inventory Report, Lapsing Schedule and other supporting documents which affected the fair presentation of the account balance.

Recommendations:

- a. Asset Management Department to prepare and submit to Finance Department a complete and detailed inventory and inspection report of all the Land items, which shall provide at minimum, information on the lot location, area, date of acquisition, historical cost, property number, Original Certificate of Title(OCT)/Transfer Certificate of Title (TCT) number, last date of inspection, current use/purpose, existing condition, copy of actual/recent photos, copy of OCT/TCT or other proofs of ownership and remarks;
 - b. Finance Department to exercise due diligence in the recognition of investment properties for fair presentation of accounts and provide the necessary adjusting entries to correct the balances, if warranted; and
 - c. Asset Management Department to regularly conduct the monitoring of assets as to the change in use/purpose, existing condition and structure and improvements built thereon and duly inform and submit the necessary documents to the Finance Department.
3. The Cash in Bank account with year-end balance of P3.691 billion includes unreconciled variances between the balances per books and per banks resulting to understatement of this account by P45.245 million caused by the non-adjustment of the reconciling items contrary to IPSAS 1.

Recommendation:

- a. Finance Department to review and analyze the reconciling items and prepare the necessary adjusting entries.

F. Summary of Audit Suspensions, Disallowances and Charges

As of December 31, 2021, although there were no unsettled suspension nor charges, the total unsettled disallowances of MWSS CO and MWSS RO amounted to P359.968 million and P246.704 million, respectively. Details are shown in Annex I of this Report.

G. Status of Implementation of Prior Years' Audit Recommendations

MWSS CO - Out of the 107 audit recommendations, 17 were fully implemented, 22 were partially implemented and 68 were not implemented.

MWSS RO - Out of the 18 audit recommendations, seven were fully implemented, two was partially implemented and nine were not implemented.

The details are presented in Part III of this Report - Status of Implementation of Prior Years' Audit Recommendations.