AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit – Corporate Office

Property, Plant and Equipment (PPE)

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 estimated at 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 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.**

1.1. Paragraph 27 of IPSAS 1 - *Presentation of Financial Statements* states that financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.

1.2. Paragraphs 7, and 54 of IPSAS 3 – Accounting Policies, Changes in Accounting Estimates, and Errors provided that:

> *7. xxx Prior Period Errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, faithfully representative information xxx.*
>
> ***Disclosure of Prior Period Errors***
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> *54. In applying paragraph 47, an entity shall disclose the following:*
>
> *(a) The nature of the prior period error;*
> *(b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;*
> *(c) The amount of the correction at the beginning of the earliest prior period presented; and*
> *(d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.*

1.3. Paragraphs 9, 14 and15 of IPSAS 32 provides the following:

> *9. The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:*
>
> *(a) The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and*
>
> *(b) The grantor controls-through ownership, beneficial entitlement, or otherwise-any significant residual interest in the asset at the end of the term of the arrangement.*
>
> *14. Where the grantor recognizes a service concession asset in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) the grantor shall also recognize a liability. xxx*
>
> *15. The liability recognized in accordance with paragraph 14 shall be initially measured at the same amount as the service concession asset measured in accordance with paragraph 11, adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.*

1.4. On February 3, 2020, the Management recognized in the books the acquired and/or developed SCA from CYs 1997 to 2019 totaling P194.872 billion with the corresponding accumulated depreciation of P37.020 billion. In addition, the Management recognized the related DSCR amounting to P156.884 billion. As explained by the Finance

Department, in the recognition of the SCA accounts, they relied on the amounts presented in the audited financial statements of the concessionaires and claimed that the concessionaires themselves do not maintain separate books for each type of SCA and do not prepare reports with minute details on the concession assets.

1.5. On June 18, 2021, the Finance Department furnished COA with the audited Financial Statements of the concessionaires showing the SCA balances in the books. However, the reported balances pertain to the consolidated balances with other accounts of the concessionaires. Hence, it was recommended in the CY 2020 AAR that the Finance Department submit the confirmed detailed balances of SCA in the books of the concessionaires, Annual Reports of the Manila Water Company, Inc. (MWCI) and Maynilad Water Services, Inc. (MWSI) for CYs 2019 and 2020 and other relevant documents to establish the propriety of the reported SCA balances.

1.6. Result of CY 2021 examination of SCA accounts, are as follows:

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;

a.i. Review of the Notes to Financial Statements for CY2021 disclosed that the Finance Department failed to provide a disclosure on the reported balances of the SCA for CY 2020 for the P198.918 billion. It also failed to provide the detailed accumulated depreciation for the PPE accounts and the beginning balances for CY 2021 as basis for verification of the transactions and ending balances during the year.

b. Understatement of the SCA and DSCR due to the non-recognition of the SCA of the Bulacan Bulk Water Supply Project (BBWSP) amounting to P6.178 billion maintained and operated by Luzon Clean Water Development Corporation (LCWDC).

b.i. MWSS has not yet recognized in its books the SCA for the newly operated BBWSP. The unaudited Statement of Financial Position of the LWCDC reported *Service Concession Rights* and per our confirmation with BBWSP, the SCA amounted to P6.178 billion and P6.431 billion, for CYs 2021 and 2020, respectively.

b.ii. Upon inquiry with the Finance Department about the actions taken to reflect in its books the SCA reported by the LCWDC and the required disclosures as required by the IPSASs, we were informed that the MWSS will be having a discussion with the LCWDC Management on the planned accounting recognition of the subject assets in its books.

b.iii. In the CY 2021 Report of Programs, Projects and Activities (RPPA) of MWSS, it was reported that the BBWSP Stages 1 and 2 were already 100 per cent completed with P7.160 billion project cost. Hence, in spite of the completion of the two stages of the BBWSP and the recognition of the Service Concession Rights of LCWDC, MWSS did not recognize the SCA in its books, thus, understating the reported SCA in the CY 2021 financial statements.

c. Understatement of the SCR and overstatement of DSCR by an estimated amount of P5.677 billion due to non-amortization of the DSCR account.

c.i. In CY 2021, MWSS recognized Amortization Expense amounting to P5.302 billion, however, computation of the *Estimated Amortization Expense* for CY 2021 amounted to P10.979 billion, or an understatement of P5.677 billion, as follows:

Amortization Expense per reasonableness test	
SCR recognized in CY 2020	10,244,392,788
SCR recognized in CY 2021	734,999,595
Total	10,979,392,383
Amortization Expense, per books	5,302,054,333
Estimated Amount of Understatement	**5,677,338,050**

c.ii. CY 2020 recognized SCR

	MWCI	MWSI	Total
Adjusted Beginning SCA Balance	**78,973,832,501**	**90,058,648,493**	**169,032,480,994**
Remaining Life of Concession Agreement	16.5 years	16.5 years	
Estimated CY 2020 Amortization Expense	**4,786,292,879**	**5,458,099,909**	**10,244,392,788**

c.iii. CY 2021 recognized SCR

SCR	CY 2020	CY 2021	Changes
MWCI – Cost	100,096,251,183	115,074,949,123	14,978,697,940
MWSI – Cost	111,885,002,912	120,426,292,017	8,541,289,105
Total	211,981,254,095	235,501,241,140	23,519,987,045
Remaining Life of Concession Agreement			16 years
Estimated Amount of CY 2021 Annual Amortization			1,469,999,190
Estimated CY 2021 Amortization Expense (6 months)			**734,999,595**

d. Understatement of the related Depreciation Expense and Accumulated Depreciation of PPE SCA estimated at P1.688 billion.

d.i. In CY 2021, MWSS recognized Depreciation Expense amounting to P5.111 billion, however, test of reasonableness showed that the *Estimated Depreciation Expense* for CY 2021 amounted to P6.799 billion, or an understatement of P1.688 billion, as follows:

Depreciation Expense, per reasonableness test	
CY 2020 recognized SCA	6,289,241,609
CY 2021 recognized SCA	509,589,907
Total	6,798,831,516
Depreciation Expense, per books	5,111,250,414
Estimated Amount of Understatement	**1,687,581,102**

d.ii. Applying the reasonableness test, we applied the COA Circular No. 2017-004 for this purpose which provides that SCA shall be depreciated on a straight-line basis over the useful life of the service concession asset or the term of the service concession arrangement, whichever is shorter. The Revised Concession Agreement (RCA) provided that the concession arrangement shall expire on July 31, 2037, hence the remaining life of 16.5 years.

d.iii. CY 2020 recognized SCA

	MWCI	MWSI	Total
Adjusted Beginning SCA Balance	78,973,832,501	90,058,648,493	169,032,480,994
Less:			
Non-depreciable items			
Construction in Progress	(26,896,241,811)	(22,541,789,713)	(49,438,031,524)
Land	(420,225,656)	(3,211,555,410)	(3,631,781,066)
Inventories	0	(659,905,565)	(659,905,565)
	51,657,365,034	**63,645,397,805**	**115,302,762,839**
Less: 10% Salvage Value			11,530,276,284
Depreciable Amount			103,772,486,555
Remaining Life of Concession Agreement			16.5 years
Estimated CY 2021 Depreciation Expense			**6,289,241,609**

d.iv. CY 2021 recognized SCA

SCA	CY 2020	CY 2021	Changes
MWCI – Cost*	72,660,340,515	88,223,755,256	15,563,414,741
MWSI – Cost*	84,596,642,243	87,151,979,734	2,555,337,491
Total	157,256,982,758	175,375,734,990	18,118,752,232
Less: 10% Salvage Value			1,811,875,223
Depreciable Amount			16,306,877,009
Remaining Life of Concession Agreement			16 years
Estimated Annual Depreciation Expense			1,019,179,813
Estimated CY 2021 Depreciation (6 months)			**509,589,907**

**excluding non-depreciable assets*

e. Understatement of the SCA and DSCR accounts due to the non-recognition of the General and Administrative Equipment (GAE) of the concessionaires.

e.i. The Government Accountancy Sector (GAS) of this Commission commented that the Application Guideline (AG) 4 of IPSAS 32 provides examples of service concession assets that include, among others, other non-current tangible or intangible assets used for administrative purposes in delivering public services.

e.ii. However, despite our previous audit recommendations, there was no recognition of GAEs in the CY 2021 SCA in the books of MWSS. The Management commented that the MWSS TWG is coordinating with the concessionaires whether the cost of the GAEs are already incorporated in the SCA. However, the Management claims that they have not received any report or updates from the concessionaires.

f. Discrepancy of SCA amounting to P24.577 billion between the CY 2021 Financial Statements and the CY 2021 General Ledger.

f.i. Examination of the CY 2021 SCA balances showed a material discrepancy amounting to P24.577 billion between the CY 2021 Statement of Financial Position and the CY 2021 General ledger, as follows:

Service Concession Assets	
Per CY 2021 Statement of Financial Position	216,331,211,430
Per CY 2021 General Ledger	191,754,446,054
Discrepancy	**24,576,765,376**

f.ii. As per examination, the variance of P24.577 billion represents the carrying amount of the assets owned by the MWSS but was assigned to the concessionaires during the privatization of the National Waterworks and Sewerage Authority (NWSA). The Finance Department prepared a manual reclassification of these assets from the ordinary PPE accounts to the Other PPE account to reconcile the variance between the Statement of Financial Position balance and the GL balance.

f.iii. However, upon review of the GL and SL movements, it was observed that the SCA is still lodged in the ordinary PPE account of the MWSS. The Finance Department did not prepare a separate sub-account under the Other PPE account to segregate the MWSS turned over PPEs to the concessionaires. The GL and SL of the SCA showed the net book value of P191.754 billion without the additional SCA coming from the SCA turned over assets. Hence, the GL and SL balances are understated by P24.577 billion.

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.

g.i. In our examination of the CY 2021 financial statements, we noted the following balances in the Notes to Financial Statements:

Service Concession Asset		**Amount**
CY 2020 Ending Balance, (as restated)		198,917,589,308
CY 2021 Recognitions	23,519,987,045	
CY 2021 Disposals/Reclass	(1,940,465)	
CY 2021 Depreciation Expense	(6,104,424,457)	17,413,622,123
CY 2021 Ending Balance		**216,331,211,431**

g.ii. Review of the CY 2021 transactions revealed that the Finance Department recognized the SCA acquisitions and/or additions made by the Manila Water Company, Inc. (MWCI) and Maynilad Water Services, Inc. (MWSI) which pertain to the concessionaires' acquired and developed assets in CYs 2020 and 2021, including the newly turned over Angat Water Transmission Improvement Project (AWTIP) Tunnel No. 4.

g.iii. However, we noted that the recognized SCA was not duly supported with the List of the Inventory items together with the relevant documents necessary to establish the validity and completeness of the SCA balances in the books. There was no available information as to the number of items, locations, evidences of acquisitions, particularly the Land items amounting to P3.820 billion; Facilities and Buildings amounting to P128.310 billion; and Construction in Progress amounting to P54.405 billion, as follows:

	MWCI	MWSI	TOTAL
Water Facilities and Transmission Lines House Service Connection (Water)	41,648,774,925	0	41,648,774,925
Completed Water Utility Plant	0	63,019,314,500	63,019,314,500
Used Water Facilities and Transmission Lines House Service Connection (used water)	23,453,311,175	0	23,453,311,175
Land	401,988,122	3,418,288,866	3,820,276,988
Construction in Progress	26,311,525,010	28,093,547,504	54,405,072,514
Inventories	0	714,799,547	714,799,547
General and Admin. Building and Structure	188,864,057	0	188,864,057
Total	**92,004,463,289**	**95,245,950,417**	**187,250,413,706**

1.7. **We recommended that Management require the 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 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.**

1.8. Management commented that the physical inventory of SCA in coordination with the concessionaires had already commenced in July 2021 and is currently ongoing. Moreover, Management transmitted in electronic format the respective Parent Company's Annual Financial Statements and Independent Auditor's Report for CYs 2021 and 2020 of MWSI and MWCI, however, the documents lacked the detailed information on the composition or listing of the SCA per class or asset group in the submitted reports of the concessionaires.

1.9. As regards the detailed GAE, MWSS will require the Finance Department to record the initial recognition in the CY 2022. Management also stated that the balances or breakdown of the SCA for the BBWSP will be coordinated with the LCWDC for initial recognition in CY 2022 in accordance with IPSAS 32 and will schedule their conduct of physical inventory.

1.10. For the noted material discrepancy, Management commented that all adjustments are duly recorded in the e-NGAS and properly reflected in the revised CY 2021 financial statements, however, the variance still exists in the balances in the ledger account due to the non-classification of the transferred assets to the SL of Service Concession Assets.

1.11. As a rejoinder, we maintain our position that Management implement our audit recommendations.

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, 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 General ledger 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 deep wells between the records of MWSS CO and MWCI; and**

m. **Operations of various deep wells (DWs) were observed to be temporarily suspended due to water qualities, non-operational and abandoned but not yet dismantled.**

2.1 Paragraph 27 of IPSAS 1 is presented in paragraph 1.1 on page 55 of this report.

2.2 Paragraph 14 of IPSAS 17 provides the initial recognition of PPE which states that the cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or fair value of the item can be measured reliably.

2.3 The subsequent recognition of PPE is governed by paragraph 43 of IPSAS 17 which states that:

After recognition as an asset, an item of property, plant and equipment *shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.*

2.4 Also, Section 101 of PD 1445 provides for accountability of public officer with respect to the custodianship of public funds and property. It states that every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law.

2.5 Under COA Circular No. 80-124 dated January 18, 1980, failure on the part of the officials concerned to submit the inventory reports shall automatically cause the suspension of payment of their salaries until they shall have complied with the requirements pursuant to Section 122 of PD 1445.

2.6 As of year-end, the MWSS reported Property, Plant and Equipment (PPE) with a total net book value of P15.606 billion.

Account	Cost	Accumulated Depreciation	Net Book Value
Land	12,568,358,502		12,568,358,502
Buildings and Other Structures	5,684,870,585	3,219,549,592	2,465,320,993
Machinery and Equipment	333,348,047	278,237,303	55,110,744
Transportation Equipment	34,647,174	17,837,099	16,810,075
Furniture, Fixtures and Books	7,659,775	2,159,095	5,500,680
Heritage Assets	40,000	36,000	4,000
Construction in Progress	969,612,325		969,612,325
Total	**19,598,536,408**	**3,517,819,089**	**16,080,717,319**
Impairment Loss			(474,832,332)
Net Total			**15,605,884,987**

2.7 Our validation of the status of prior years' audit recommendations and review of CY 2021 transactions revealed the following deficiencies:

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.

Review of the Notes to Financial Statements for CY 2021 disclosed that Finance Department failed to provide a disclosure on the reported balances of the PPE of P18.995 billion for CY 2020. It also failed to provide the detailed accumulated depreciation for the PPE accounts and the beginning balances for CY 2021 as basis for verification of the transactions and ending balances during the year.

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.

b.i. Review of the transactions related to the Construction in Progress (264) account showed that no reclassification was made to transfer the balances of completed projects to the appropriate PPE accounts. The P156.551 million is the accumulated costs of completed projects as follows:

Project Name	Year Completed	Balance as of 12/31/2021
1. Angat Water Supply Optimization Project	2003	82,574,731
2. Umiray Angat Transbasin Project	2002	10,002,973
3. Manila Second Sewerage Project	2003	2,478,439
4. New Water Sources Development Project	2009	10,817,117
5. Manila Third Sewerage Project	2012	50,677,422
Total		**156,550,682**

b.ii. Based on a 10 per cent salvage value of the Service Concession Assets and effectivity of the Revised Concession Agreement (RCA) which will expire on July 31, 2037, the Finance Department should have recognized the Accumulated Depreciation at an estimated amount of P71.944 million, as follows:

Project Name	Year Completed	Years in Operation	Depreciable Amount	Estimated Accumulated Depreciation
Angat Water Supply Optimization Project	2003	18	74,317,258	44,590,355
Umiray Angat Transbasin Project	2002	19	9,002,676	5,701,695
Manila Second Sewerage Project	2003	18	2,230,595	1,338,357
New Water Sources Development Project	2009	12	9,735,405	3,894,162
Manila Third Sewerage Project	2012	9	45,609,680	16,419,485
Total			**140,895,614**	**71,944,054**

b.iii. During the year, the Finance Department did not reclassify the subject CIPs to the appropriate PPE accounts. As explained by the Finance Department, it cannot effect adjustments to the CIP accounts without the corresponding documentation from the Engineering Department. On the other hand, the Engineering Department stated that it has no available copies of the required supporting documents and that they are presently locating the documents pertinent to the completed projects to provide sufficient basis for the adjustment in the books.

c. Unreconciled variance amounting to P24.577 billion between the balances as reported in the financial statements amounting P15.606 billion and the General ledger amounting P40.183 billion.

Verification disclosed that the variance includes the non-reclassification of the assets assigned to the concessionaires totaling P24.577 billion during the privatization of the MWSS. These are the turned over assets which were accounted for as Service Concession Assets as presented in the Notes to the Financial

Statements. The Finance Department merely prepared a manual reclassification entry to reconcile the balances of the Other PPE items as reported in the Notes to Financial Statements and the balances as reported in the Statement of Financial Position without providing separate ledger accounts to account for the MWSS Turned Over Assets to the concessionaires and to segregate them from the ordinary MWSS PPE accounts.

d. **Adjustment on the land account amounting to P267.207 million remained unsupported.**

d.i. This pertains to the adjustment made on the land sold to National Waterworks and Sewerage Authority (NWSA) employees amounting to P228.176 million and Silhoutte Trading amounting to P39.031 million way back 2006 and 1983, respectively.

d.ii. The adjustments on the sale to NWSA refers to validity of adjustments relative to the sale of MWSS parcel of land with an area of 580,000 sq.m to NWSA employees for a total amount of P3.091 million in CY 1983 as evidenced by a deed of sale executed on February 25, 2006. An adjustment for an excess of P228.176 million over the value of land was taken in the books for the Appraisal Capital Stock and crediting the Land account. Due to the inadequate documentation, the said adjustment cannot be validated and hence cannot be relied in audit.

d.iii. Relative to the sale to Silhoutte Trading, in CY 2014, the Finance Department made another adjustment for P39.032 million by debiting Retained Earnings and crediting Land account. The said adjustments were also not supported with any documents.

d.iv. The Asset Management Department admitted that it cannot provide a reconciliation on this despite its earnest efforts, it can no longer locate the documents or any records that would provide a sufficient basis to reconcile the discrepancies noted.

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.**

e.i. In the previous audit reports, we noted a discrepancy of P29.527 million between the inventory records against the accounting records relative to the sale of unserviceable motor vehicles and other transportation equipment that transpired in CY 2016.

e.ii. We recommended that Management require the Asset Management Department and Finance Department to explain and reconcile the discrepancy and provide the necessary adjustment in the books and to submit the Report on the Inventory of Unserviceable Properties disposed in CY 2016 amounting to P107.552 million and the remaining unserviceable properties as of December 31, 2021. However, there was no concrete action until now from the Finance Department due to the non-submission of supporting documents from the Asset Management Department pertaining to the sale of unserviceable GAE.

e.iii. In addition, during the year, the Disposal Committee reported the disposals of transportation equipment to various Local Government Units (LGUs), however, verification of the records of Finance Department showed that the vehicles that were already turned over are still included in the accounting records. These items should have been dropped from the books. Details shown as follows:

Property Name	Book Value	Date Turned-over
Mitsubishi Vacuum Tanker	379,922	01/18/2021
Hyundai Water Tanker	344,919	Waiting for pick-up
Isuzu Water Tanker	388,500	Waiting for pick-up
	1,113,341	
Toyota Revo	0.00	02/24/2021
Nissan Truck	0.00	02/24/2021
Nissan Frontier Pick-up	0.00	For pick-up

e.iv. In addition, there were three vehicles, with papers already prepared, deed of transfer signed, invoice and receipt, and Board of Trustees approvals and gate passes issued that were turned over to the LGU-recipient but no corresponding entries were made to reflect the dropping of the motor vehicles in the books due to absence of records to match the items in the Finance Department and determine any valuation thereof.

f. Incomplete inventory of Other PPE items for CY 2021 with P5.670 billion not inspected/counted.

f.i. Inquiry with the Asset Management Department disclosed that the actual physical inventory for CY 2021 was actually conducted, however, the Physical Inventory Report (PIR) was not yet completed and submitted an inventory report consisting of Lands, Buildings, Land Improvements, Other Structures, Water Supply System, Sewer System, as follows:

Account	Balance at 12/31/21	Actual Value Inspected
Land	12,568,358,502	9,405,141,801
Buildings and Other Structures	2,465,602,539	35,830,812
Machinery and Equipment	55,110,744	Not inspected
Transportation Equipment	16,810,075	Not inspected
Furniture, Fixtures and Books	5,500,680	Not inspected
Heritage Assets	4,000	Not inspected
Total	**15,111,386,540**	**9,440,972,613**

f.ii. Based on the above table, they were able to inspect MWSS properties which are in the actual custodianship of MWSS with total book value of P9.441 billion, and the remaining fixed assets with an estimated amount of P5.670 billion was not yet inspected. In a letter dated December 31, 2021 and submitted to the COA a copy of the Inventory of Real Estate Properties for Batch Nos. 1 to 4. It also stated that it will submit the other batches once the documentation for the City of Manila, Quezon City, Caloocan City, Rodriguez and Tanay, Rizal is completed.

g. Inexistent, dilapidated, non-operational and/or abandoned Office Building and Other structures amounting to P5.117 billion not adjusted.

g.i. In the previous audit reports, it was reported that a total of P5.117 billion of the PPE assets as reported in CY 2018 phyiscal inventory report were discovered as non-existing, dilapidated and/or abandoned. This amount is divided into Office Buildings and Other Building and Structures.

g.ii. During the year, the Asset Management Department was able to inspect and check a portion of the total assets. Based on the analysis of the partial inventory reports submitted, P35.831 million of the total book value of the buildings and other structures accounts were inspected during the current year. The bulk of this asset classification was not yet inspected, verified and determined as to the prevailing status and conditions or whether these assets are still existing.

g.iii. Verification of the JEV transactions during the year showed that the Finance Department did not recognize any impairment losses with respect to the PPE accounts as recommended in the previous years. According to them, they are still waiting for the final documentation from the Asset Management Department as basis of recognition of impairment losses in the books. However, the Asset Management Department said that it is exerting its best effort to complete the inventory, to reduce the variances and provide a complete report on the fixed assets.

h. Certificates of title and other proofs evidencing ownership of land assets totaling P4.668 billion not yet secured.

h.i. In the previous audit reports, review of the Lapsing Schedule of the PPE and inspection of certificate of titles during CY 2018 revealed that the land items totaling P4.668 billion do not have title numbers and/or with missing titles, as follows:

Classification	No. of Lots	Book Value per CY2018 PIR	Book Value Per CY 2020 Lapsing Schedule
With title numbers but missing			
1. Under MWSS PPE	9		403,741,432
2. Retained by MWSI	50		329,530,198
3. Retained by MWCI	21		2,021,298,825
4. Common Purpose Facility (CPF)	10		83,315,800

Classification	No. of Lots	Book Value per CY2018 PIR	Book Value Per CY 2020 Lapsing Schedule
5. Not Recorded in the Books	14		0
Sub-Total	**104**	**2,047,480,060**	**2,837,886,255**
Without title numbers and missing			
1. Under MWSS PPE	14		208,229,800
2. Retained by MWSI	17		105,488,320
3. Retained by MWCI	24		1,354,778,610
4. CPF	11		161,807,500
5. Not Recorded in the Books	5		0
Sub- Total	**71**	**2,864,323,184**	**1,830,304,230**
TOTAL	**175**	**4,911,803,244**	**4,668,190,485**

h.ii. The 175 land assets which include 71 parcels of land were reported to have missing certificates of title. According to Asset Management Department, it has two remedies available, namely: (1) Administrative process and (2) Judicial Process. They also explained that the 104 missing land certificates of title were actually in the name of original private land owners upon whom the MWSS purchased the lots. The sale of the lots was annotated in the land titles, however, it was not transferred in the name of MWSS because the mother title cannot be located.

h.iii. Also, for the land certificates of title that were not found in the vault, the Asset Management Department stated that it will check and update actions taken relative to the petition for reconstitution or the re-issuance of the owners duplicate copy of Transfer Certificate of Title (TCT). However, upon inquiry, there was no update as to the reconstitution or reissuance of duplicate TCTs.

h.iv. During the inspection of certificates of title, it was noted that there were 23 land certificates of title under the custody of MWSS that were not recorded in the books. They said that some were already recorded in the old inventory list of the former Property Management Department but not taken up in the books by the Finance Department. Both departments will evaluate and reconcile each lot to come up with a reconciled report. They also informed that they have already forwarded the documents to the Finance Department. However, the Finance Department said that reconciliation is still ongoing. The latest AAPSI submitted by the Management showed that there were 29 certificates of title that were not recorded in the books as per representation by the Asset Management Department, which is six titles more than previously inspected. Copies of the the six additional certificates of title were not yet presented to the audit team for validation.

h.v. The Finance Department is yet to evaluate the land assets and Asset Management Department also reported that it is currently preparing the TOR for the conduct of survey of the 71 lands with no certificates of title as a preparatory activity for the titling of the said lots. According to the Asset Management Department, most of these lots are used in operations. As for the

104 lots with missing certificates of title but with existing tax declaration, these were also included in the survey to be conducted for CY 2022 while those lands with TCT/OCT numbers, verification shall be made from the previous private owners or the appropriate agencies like the DENR. In addition, the Asset Management Department with the assistance of the Legal Department will endeavor to locate the missing certificates of title and produce other documents to secure owners duplicate copies and have the lands titled under the agency's name for those still under private name or those that have not yet been registered under the Torrens System.

h.vi. In recent discussions with the Asset Management Department personnel, they stated that they are prioritizing the completion of the inspection of all the existing lands and reconciliation of the data obtained therefrom to serve as additional inputs for the Legal Department in the registration process.

i. Other Structures with book value of P1.218 million recorded in the books but not located during the CY 2021 inventory.

i.i. During the conduct of the inspection of various land improvements and other structures, the Asset Management Department was not able to locate items with book value of P1.218 million which were recorded in the books of accounts.

i.ii. The Finance Department shall coordinate with the Asset Management Department to ascertain if there are subsequent events which would show that the said assets were already non-existing and should be dropped from the books or an impairment should be recognized if assets are no longer available for operation.

j. Unrecorded 939 items of Other PPE under the Buildings and Other Structures account found during the CY 2021 inventory.

j.i. During the inspection for CY 2021, it was noted that there were significant number of items of PPE account which have no corresponding records in the books. The Finance Department explained that the "no records" in the description column of the Inventory Report means that there were no currently assigned property numbers with respect to these items. These are composed mostly of buildings, land improvements and water supply system and other structures and most of these items are operational and in good condition. The details of unrecorded PPE are shown below:

Asset Type	MWSS	MWCI	MWSI	Total
1. Buildings	33	224	56	313
2. Other Structure	24	193	31	248
3. Land Improvement	12	89	47	148
4. Sewer System	0	90	0	90
5. Water Supply System	0	77	62	139
6. Construction in Progress	0	1	0	1
Total	**69**	**674**	**196**	**939**

j.ii. According to the Finance Department, the amounts of these items are part of the service concession assets as recorded in the books and that they are hesitant to record the said items in the accounting records as there are no available records relative to the allocation of the assets.

k. Various MWSS properties occupied by private individuals or taken back by the donors.

k.i. On the last quarter of CY 2019, the Audit Team together with the members of the Asset Management Department and Finance Department conducted an ocular inspection of various deep wells, pumping stations and other water supply systems assets in various parts of Quezon City, Marikina and Rizal province. It was observed during the fieldwork that MWSS assets used for the water supply services were already occupied by private individuals while others were taken back by the donors.

k.ii. Inquiry from the tenants and the alleged claimants disclosed that the claimant's family were living in the premises since 1970s while the others were former employees of the adjunct NWSA. Most of the claimants stayed in the premises after the deep wells were no longer operating. According to the recent update from the Asset Management Department, the Asset Recovery Division is preparing to issue Notices to Vacate. The Asset Management Department also stated that it retrieved waste material from various deep wells which were returned to Asset Management Department Stockyard as evidenced by each Return of Retrieved Waste/Scrap Materials Receipt. In addition, the MWSS is coordinating with the LGUs related to Informal Settlers families and documentation of Deepwell and Pumping Station.

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 deep wells between the records of MWSS CO and MWCI.

l.i. It was noted in the CY 2019 ocular inspection in Rizal areas, that MWSS properties such as deep wells and pumping stations which were formerly used in the supply and delivery of water cannot be located anymore as these were either demolished or other structures were erected on the DW sites. Also, during the inventory and inspection, copy of the list of PPEs was provided by the concessionaire and showed 23 deep well pumping stations in the province of Rizal. On the other hand, inventory list submitted by the MWSS CO as extracted from the e-NGAS consists only of 11 turned-over deep wells, hence a discrepancy of 12 items. Based on the inventory list of the PPEs provided by the concessionaire, the table shows the status of the 23 turned-over deep well pumping stations:

Status of Turned-over Deep Well Pumping Stations

Item	Quantity	Status	Observation
A-1	3	Demolished	The Barangay issued a Certification because there are no traces can be seen which shows that a deep well pump station was built on the place
A-2	2	Demolished	The Barangay will submit the Certification to the Branch Office of MWCI – Cainta
A-3	4	Demolished	No Certification issued. Need to locate its barangay zonal place for the Certification.
B	1	Demolished	No traces of the deep well pumping station but as to the list copy given by the MWCI in their remark states “MWSS verbal agreement only”
C	1	Not included in the listing of PPE of MWSS-CO	Presumed to be a private deep well pump. Remark by the MWCI “scheduled for ocular inspection by next year”
D	1	Cannot be located	No information in the PPE book of MWSS-CO
E	6	Stand-by ready for operation	Serve as back-up as the need arises
F	2	Upgraded appurtenances	On-going rehabilitation
G	3	Operational	On service
Total	**23**		

l.ii. The Asset Management Department said that a committee on the Physical Inventory has been constituted. The undertaking already commenced together with MWCI and MWSI in July 2021 and it is still ongoing. Efforts are continually exerted to verify the status of all MWSS properties, including those that could not be located/missing. With respect to the decommissioning and accountability of turned-over assets, the Legal Services Department (LSD) has already issued their Legal Opinion denominated under MWSS-LSD-M-20-77 dated April 4, 2020.

m. Operations of various deep wells (DWs) were observed to be temporarily suspended due to water qualities, non-operational and abandoned but not yet dismantled.

m.i. It was also observed in the CY 2019 ocular inspection that many deep wells remained non-operational due to unresolved water quality issues, uninstalled machineries/equipment and other appurtenances, outdated and being used as storage other than the intended purpose and other which are abandoned but not yet dismantled. These, among others, are part of the issues which prevented the optimal use of deep wells to augment the water supply in Metropolitan Manila.

m.ii. According to the Asset Management Department, as part of its continuing effort to account all existing and non-operational or abandoned deep wells including the pumping stations, it plans to develop guidelines for the decommissioning, return and turnover of non-operational facilities; and for the baseline maintenance and upkeep for the non-operational facilities. The audit team has yet to validate the initially prepared preliminary reports for these initiatives.

2.8 **We recommended that Management require the:**

Finance Department to:

a.1 Take up the necessary correcting entries on the discrepancy of P24.577 billion between the financial statements and the GL;

a.2 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;

a.3 Review and analyze the unsupported adjustment of P267.207 million on the Land account and the variance of P29.527 million from the CY 2016 sale of unserviceable vehicles not accounted for;

a.4 Derecognize the transferred vehicles to LGU with book value of P1.113 million;

a.5 Recognize impairment losses and allowance for impairment for the inexistent, dilapidated, non-operational and abandoned Office Buildings and Other Structures; and

a.6. Provide sufficient disclosure on the CY 2020 balance of Other PPE of P18.995 billion in the Notes to Financial Statements.

Asset Management Department to complete and submit to Finance Department the following pertinent reports and documents:

b.1. Physical Inventory Report for CY 2021 including unlocated, temporarily suspended, non-operational and abandoned deep wells;

b.2. Detailed Lapsing Schedule of Other PPE items for CY 2021;

b.3. List of Unserviceable Properties including those turned over to MWSS and Schedule of Disposals for CYs 2020 and 2021;

b.4. Documents relative to the Completed Projects remaining under the CIP Account;

b.5. Copy of MWSI Manual of Procedures or Policies on Disposal and Turn-over of Unserviceable Properties to MWSS;

b.6. Update on the status of the 175 land assets without titles and the 23 land titles not recorded in the books;

b.7. Summary of newly acquired land for CY 2021 and those with ongoing registration proceedings;

b.8. Report on various MWSS properties that were occupied by private individuals or taken back by the donors; and

b.9. Update on the on-going MWSS initiatives for the crafting of guidelines for decommissioned and turned-over non-operational assets.

Finance Department and Asset Management Department 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.

2.9 Management commented that the Finance Department (a) reflected the required adjustment to the FS presentation to correct the balances of the turned over assets; (b) for the non-recognition of Depreciation Expense for completed assets that remained in the CIP account, they will conduct the inventory beginning June 2022 and it will prioritize the accounts that will be reconciled; (c) it will exert extra effort to locate supporting documents in relation to the adjustment on Land account amounting to P39.032 million and (d) on the unaccounted P29.527 million from CY 2016 sale of unserviceable other transportation equipment and P1.113 million documented, inspected and accepted properties transferred to LGUs, and they commented that they already dropped the value of the said vehicles from the books;

2.10 In addition, the Management also commented that the Asset Management Department will (a) submit all available reports on the PIR inventory and the updated report in the status of 175 land assets which have no titles on or before June 10, 2022; (b) as to the recognition of the impairment losses and allowance for impairment losses on the inexistent, dilapidated, non-operational and/or abandoned fixed assets, they will coordinate with the Finance Department to assess the items based on the Inventory report; (c) with respect to the deep wells which could no longer be located, the MWSS already has constituted Physical Inventory and has already commenced together with the two concessionaires; and (d) they are also planning to secure the properties by installing fences and signage and padlocks and in coordination with the Finance Department, Legal Services Department together with the MWCI/MWSI to craft guidelines on the decommissioning of the deep wells.

2.11 Further, the Management commented that for the properties occupied by private individuals or taken back by the donors, the Asset Recovery Division will secure from different LGUs the census of Informal Settler Families and illegal structures on the MWSS properties located in the respective LGUSs on or before July 30, 2022 and for the Other Structures which were found during the inventory and for the assets recorded in the books but were not found during the actual ocular inspection, the Asset Management Department and Finance Department will coordinate on the documentation needed to recognize the PPE items found during the CY 2021 inventory and derecognize assets which could no longer be found.

2.12 However, we noted that the Finance Department prepared a manual reclassification to reflect adjustment on the variance noted between the balances in the Detailed Statement of Financial Position and the Notes to Financial Statements. Thus, the variance still exists in the ledger account balances.

2.13 In addition, we disagree to the statement of the Finance Department that the it had already dropped the book value of the vehicles amounting to P1.113 million. They stated that JEVs were already submitted to the COA under Transmittal No. MWSS-FD-T-222-224 dated February 28,2021. It is true that the said JEVs were transmitted to the COA, however, these JEVs were already considered in audit. For information, the six vehicles reported is only a part of the vehicles inspected and disposed by the Asset

Management Department per letters dated November 11, 2021, November 18, 2021 and December 22, 2021. We traced all the disposed vehicles as against the vehicles reported in the books and it was found that six vehicles which was reported by the Asset Management Department as disposed were not properly derecognized in the books by the Finance Department.

2.14 With regard to the submission of reports by the Asset Management Department, to date, we have not received any documents.

2.15 The actions taken by Management in CY 2022, if any, to implement the audit recommendations will be validated by the audit team in the forthcoming audit.

Accumulated Surplus/(Deficit)

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 General Ledger.**

3.1 Paragraph 27 of IPSAS 1 – Presentation of Financial Statements provides that:

> *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.*

3.2 Paragraphs 7 and 54 of IPSAS 3 – Accounting Policies, Changes in Accounting Estimates, and Errors provides that:

> *7. Prior Period Errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, faithfully representative information that:*
>
> *xxx*
>
> ***Disclosure of Prior Period Errors***
>
> *54. In applying paragraph 47, an entity shall disclose the following:*
>
> *(a) The nature of the prior period error;*
> *(b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;*
> *(c) The amount of the correction at the beginning of the earliest prior period presented; and*
> *(d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.*

3.3 The National Internal Revenue Code of 1997 provides the following:

Section 52. Corporation Returns. -

(B) Requirements. - Every corporation subject to the tax herein imposed, except foreign corporations not engaged in trade or business in the Philippines, ***shall render, in duplicate, a true and accurate quarterly income tax return and final or adjustment return in accordance with the provisions of Chapter XII of this Title.*** *The return shall be filed by the president, vice-president or other principal officer, and shall be sworn to by such officer and by the treasurer or assistant treasurer.*

xxx

Section 76. Final Adjustment Return

> *Every corporation liable to tax under Section 27* ***shall file a final adjustment return covering the total taxable income for the preceding calendar or fiscal year.*** (emphasis ours)

3.4 In our examination of the CY 2021 Notes to Financial Statements, the Finance Department did not provide a separate Note for the proper disclosure of the effects of the restatements:

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.**

The CY 2020 restatements to the total assets and total liabilities amounting to P15.793 billion and P14.768 billion, respectively, were not properly provided with the required reconciliation and disclosure in the CY 2021 Notes to Financial Statements, are as follows:

	Per CY 2021 Notes to Financial Statements	Per CY 2020 financial statements	***CY 2021 Restatements on the reported CY 2020 Accounts***
Cash and Cash Equivalents	3,481,830,132	3,481,819,572	10,560
Receivables	6,047,466,297	6,003,913,421	43,552,876
Investments	32,034,575	2,524,168	29,510,407
Property Plant & Equipment	217,912,909,173	202,229,651,345	15,683,257,828
Other Non-Current Assets	3,725,093,526	3,688,180,572	36,912,954
Total Assets	**231,199,333,703**	**215,406,089,078**	**15,793,244,625**
Financial Liabilities-Current	520,385,130	1,054,141,643	(533,756,513)
Trust Liabilities	114,816,794	286,778,131	(171,961,337)
Other Payables	906,183,098	1,135,521,217	(229,338,119)
Deferred Credits	174,245,785,540	158,543,056,488	15,702,729,052
Total Liabilities	**175,787,170,562**	**161,019,497,479**	**14,767,673,083**

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.**

We noted in our analysis of the CY 2021 transactions that MWSS did not also disclose the adjustments made to the beginning balances of the Accumulated Surplus/Deficit account amounting to P987.921 million as presented below:

Balance, Jan. 1, 2020	40,221,597,247
Balance, as restated	41,209,518,180
CY 2021 Adjustments/restatement of beginning Accumulated Surplus/Deficit per Statement of Changes in Net Assets/Equity	**987,920,933**

Furthermore, the net credit adjustments effected amounting to P987.921 million cannot be properly mapped to the noted net debit adjustments in the e-NGAS of P426.632 million, thus, an unreconciled variance of P1.415 billion as shown below:

	Adjustment
Net debit adjustments on CY 2021 per e-NGAS	426,631,733
Adjustments, per CY 2021 Statement of Changes in Net Assets/Equity	987,920,933
Unreconciled variance	**1,414,552,666**

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 an Estimated Restated CY 2020 Net Income of P2.524 billion.**

We noted that 186 JEVs pertaining to CY 2020 and prior years with net debit adjustments of P426.632 million were not properly disclosed in the CY 2021 Notes to Financial Statements contrary to IPSAS 3, as summarized/ classified below:

Classification	Debit	Credit
Service Concession Assets and Income	4,984,736,583	5,011,351,992
Accrual of Dividend Payable for CY 2016 to 2020	1,432,277,084	
Reversion of Accounts Payable		884,548,254
Depreciation Expenses	65,419,796	
Set up of Receivables to Concessionaires		43,106,350
Forex Gain/Loss		40,411,572
Capital Expenditures		30,820,948
Reversion of the Sinking Fund derecognition		29,510,407
Rent Income		13,500,000
Taxes incurred	4,613,963	
Gain/loss on Investments		12,734,589
Janitorial and Security Services	3,376,997	
Mandatory Contributions	1,812,286	
Salaries and Other Compensation	396,485	1,702,056
Miscellaneous Income		1,511,163
Disposal of Assets	971,196	
Training and Professional Services	893,560	2,950
Advances to Contractor	365,754	502,553
Other Operating Expenses	457,694	
Utilities Expenses	418,502	
Reimbursable Expenses	341,505	
Fuel Expenses	170,857	
Communication Expenses	83,402	1,096
Total	**6,496,335,664**	**6,069,703,930**

As a result of the restatements made by the Finance Department, the effect of the adjustments resulted to an Estimated Restated CY 2020 Net Income of P2.524 billion or an Estimated Net Increase of the CY 2020 Net Income amounting to 975.998 million, as follows:

Estimated Restated CY 2020 Net Income	2,523,595,100
Reported CY 2020 Net Income per AAR	1,547,596,956
Estimated Net Increase in the CY 2020 Net Income	**975,998,144**

Effect of adjustments in the CY 2020 Net Income	
CY 2020 Net Income per CY 2020 AAR	**1,547,596,956**
CY 2020 Adjustments to RE	
Recognition of Service Concession Income	5,011,351,992
Reversion of Accounts Payables	884,548,254
Recognition of SCA Depreciation Expense	(4,984,736,583)
Depreciation Expenses	(65,419,796)
Recognition of Lease Income	43,106,350
Recognition of Forex Gain	40,411,572
Recognition of Adjustments on Contractor's Retention	30,820,948
Rent Income	13,500,000
Recognition of tax deficiency and other adjustments	(4,613,963)
Recognition of Gain on Investments	12,734,589
Recognition of additional Janitorial and Security Services	(3,376,997)
Recognition of additional Mandatory Contributions	(1,812,286)
Decrease in the Salaries and Other Compensation	1,305,571
Recognition of Miscellaneous Income	1,511,163
Disposal of Assets	(971,196)
Training and Professional Services	(890,610)
Other Operating Expenses	(457,694)
Utilities Expenses	(418,502)
Reimbursable Expenses	(341,505)
Fuel Expenses	(170,857)
Communication Expenses	(82,306)
Estimated Restated CY 2020 Net Income	**2,523,595,100**

We requested the Finance Department for the submission of any amendment of the CY 2020 Income Tax Return (ITR) for the effect of the prior period adjustments, and as per verification with the Finance Department, there was no amendment on the ITR pertaining to CY 2020. The only ITR for CY 2020 was made on April 15, 2021. Further, they commented that they are now precluded to amend the CY 2020 ITR as the Bureau of Internal Revenue (BIR) already issued a Notice of Audit through a Letter of Authority dated July 30, 2021.

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 General Ledger

Finally, the balance of CY 2021 Accumulated Surplus/deficit between the Statement of Net Assets/Equity and CY 2021 General ledger has a difference of P439.879 million, as follows:

CY 2021 Accumulated Surplus/Deficit	
Per CY 2021 Statement of Changes in Equity	40,068,874,112
Per CY 2021 General Ledger	40,508,753,114
Discrepancy	**439,879,002**

3.5 Hence, all the adjustments of the Finance Department including the restatement of accounts that affected the previously reported balances were not properly reconciled and provided with proper disclosure in the CY 2021 Financial Statements to show the effects of the restatements/adjustments.

This is contrary to the requirements of IPSAS 3 wherein the opening balances of each affected component of net assets/equity for the earliest prior period presented should be adjusted. The CY 2020 financial statements should have been properly restated with appropriate disclosure on the reconciliation from the last year's audited financial statements to recognize the effect of the correction of prior period errors.

3.6 We recommended that Management require the 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 for 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.

3.7 Management commented that necessary restatements were effected already on the comparative balances for CY 2020 and the opening balances presented in CY 2021 financial statements. They added that the discrepancies noted between the CY 2021 General Ledger and the financial statements were already adjusted and reconciled.

3.8 We contend otherwise, the CY 2021 financial statements were not properly provided with the required disclosure to show the effects of the restatement of accounts. In addition, review of the revisions/adjustments on the balances of Accumulated Surplus/Deficit account disclosed that the balances shown in the financial statements and the general ledger did not tally.

3.9 As a rejoinder, we maintain our position that Management to implement our audit recommendations.

Other Deferred Credits

4. **The validity and reliability of the Other Deferred Credits amounting to P284.015 million cannot be ascertained due to the inclusion of unsupported accounts amounting to P109.511 million that remained dormant for several years and recognition of the account amounting to P4.887 million for the revenue earned from sale of scrap materials which affected the fair presentation of the account contrary to IPSAS 1 and 9.**

4.1. Paragraph 27 of IPSAS 1 – Presentation of Financial Statements, provides that:

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for *assets, liabilities, revenue and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.*

4.2. Revenue form Exchange Transactions, as defined under paragraph 11 of IPSAS No. 9, are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

4.3. Paragraph 28 of IPSAS No. 9 states that revenue from the sale of goods shall be recognized when all of the following conditions have been satisfied:

> *a. The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;*
> *b. The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;*
> *c. The amount of revenue can be measured reliably;*
> *d. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and*
> *e. The costs incurred or to be incurred in respect of the transaction can be measured reliably.*

4.4. Section 111 of Presidential Decree No. 1445 provide the following:

> *The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*

4.5. *This is a reiteration of prior years' audit observation and recommendation.*

4.6. In our examination of the accounts, it was noted that unsupported items amounting to P109.511 million remained dormant for several years, as follows:

		Balance of Dormant Accounts
1.	Deferred Credits to Income	55,191,362
2.	Disposal/Public Auction	31,098,747
3.	Cost of Lot Housing	13,044,592
4.	Interest	8,230,803
5.	Miscellaneous	1,752,679
6.	Liquidated Damages	192,820
		P 109,511,003

4.7. In addition, cash receipts from the sale of scrap materials amounting to P4.887 million was recorded in the books as Other Deferred Credits instead of revenue.

4.8. The Finance Department recognized the Other Deferred Credits account for the sale of scrap materials. This account is being used by the Finance Department as a suspense account and will be subsequently reclassified to Gain/Loss on Disposal account upon submission of disposal documents by the Asset Management Department Disposal Committee as its support for the dropping of PPE from the books.

4.9. The sale of scrap materials falls within the scope of revenue recognition under paragraph 28 of IPSAS No. 9. The ownership of the scrap materials is transferred to the bidders or buyers upon its award of the disposal of the scrap materials to the bidders, hence, MWSS' control over the assets ceased. In addition, the revenue is reasonably measurable as there is already an established cost per unit and estimated weight measurements. Therefore, these amounts should be recognized as revenue instead of Other Deferred Credits.

4.10. The Finance Department explained that the related PPE items disposed cannot be dropped from the books due to the absence of disposal documents. As per the Asset Management Department, they cannot comment yet on the specific items noted, but they explained that all of the disposal related transactions are supported with Inventory and Inspection Report of Unserviceable Properties (IIRUP). Once the IIRUP is approved by the Board of Trustees, the IIRUP will be submitted to Finance Department and this will become the basis for the dropping or derecognition of the disposed PPE from the books.

4.11. It was stated in the Manual on Disposal of Government Property that, upon disposal of property, the pertinent portions of the Inventory & Inspection Report shall be accomplished. Hence, these reports should be the basis for dropping the property from the books of accounts and for taking up the proceeds from sale of property.

4.12. **We recommended and Management agreed to require the:**

a. **Finance Department to prepare the timetable on the prioritization of dormant accounts for review, analysis and adjustments; and**

b. **Finance Department and Asset Management Department to collaborate and identify the particular assets sold with scrap value amounting to P4.887 million and prepare the necessary adjusting entries. Henceforth, all disposal must be supported by IIRUP.**

4.13. The Asset Management Department also commented that conduct of inventory of all documents in all its warehouses in CY 2020 beginning June 2022. With regard to the proceeds from the sale of scrap materials, the Finance Department agreed that the proceeds from the sale of scrap materials are not to be recorded under the Other Deferred Credits account, however, the completion of the duly accomplished IIRUP is still on-going.

Receivables

5. **The validity and reliability of the Receivables account amounting to P5.941 billion as of December 31, 2021 could not be ascertained due to the following errors and deficiencies contrary to IPSAS Nos. 1 and 26, and COA Circular No. 2016-005 that**

affected the fair presentation of the account and may result to possible losses to the government:

a. **Disputed Claims and Dormant Receivables amounting to P4.048 billion and P207.243 million respectively;**

b. **Unadjusted Receivable accounts with abnormal/negative balances totaling P5.596 million; and**

c. **Discrepancy in the Due from Local Water Utilities Administration (LWUA) account amounting to P14.777 million between the balance per books of P14.979 million and the confirmed balance of P201,890 representing rental fees.**

5.1. Section 102 of PD 1445 – Primary and Secondary Responsibility states that:

> 1. *The Head of any agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency.*
>
> 2. *Persons entrusted with the possession or custody of the funds or property under the agency head shall be immediately responsible to him, without prejudice to the liability of either party to the government.*

5.2. Sections 6.1, 7.1 and 7.4 of COA Circular No. 2016-005 on the Guidelines and Procedures on the write-off of Dormant Receivable Accounts provides that all government entities shall conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable xxx and that:

> *The Accountant shall:*
>
> *7.1 Conduct regular and periodic verification, analysis, and validation of the existence of the receivables, xxx.*

5.3. Paragraph 27 of the IPSAS 1 – Presentation of Financial Statements discusses the requirement of faithful representation wherein:

> *Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity.* ***Fair presentation requires the faithful representation of the effects of transactions****, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS. The application of IPSAS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.* (emphasis ours)

5.4. Paragraph 22 of IPSAS 26 – Impairment of Cash-Generating Assets provides that:

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

5.5. Section 6.4(a) of the 1997 Concession Agreement provides that:

(a) Not later than 14 days prior to the date on which any scheduled payment of principal, interest, fees or other amount is due under an MWSS Loan, MWSS shall notify the Concessionaire in writing of the total amount due on that payment date and of the Peso equivalent thereof (the "Peso Equivalent") calculated at the then prevailing exchange rate. Not later than one business day to each such payment date, the Concessionaire shall remit to such account as MWSS shall instruct an amount, in Pesos, exclusive of any penalties or default interest charges not attributable to a late payment of the Concession Fee by the Concessionaire xxx.

5.6. The Receivables account as of December 31, 2021 has a net balance of P5.941 billion, details as follows:

Account		**Balance**
Loans and Accounts Receivables	P	1,297,283,765
Inter-Agency Receivables		49,015,983
Intra-Agency Receivables		791,592
Other Receivables		5,733,797,315
Total		**7,080,888,655**
Allowance for Impairment		(1,139,706,990)
Net Total	**P**	**5,941,181,655**

5.7. During the course of our audit, the following errors and deficiencies were noted:

a. Disputed Claims and Dormant Receivables amounting to P4.048 billion and P207.243 million, respectively.

a.i. The Receivables account includes Disputed Claims and Dormant Receivables, as follows:

	CY 2021 Balances
Disputed Claims	4,048,079,994
Dormant Receivables	207,243,120
Total	**4,255,323,114**

a.ii. The Disputed Claims amounting to P4.048 billion pertain to the cost of borrowing with BNP Paribas in CY 2004 including the principal, interest and finance charges such as bank conversions, documentary stamps, cable charges and penalties that were billed to MWSI.

a.iii. Verification disclosed that the receivables for the borrowing costs were still outstanding as of to date. The Finance Department commented that they are still pursuing the disputed claims and reconciliation with MWSI relative to the cost of borrowings relative to the BNP Paribas loan. However, the Finance Department did not submit the necessary documents such as demand letters, petitions and other relevant documents to support the legal actions taken to enforce the collection of the borrowing costs to MWSI.

a.iv. In addition, the Dormant Receivables is composed of the following:

Dormant Receivables	Balance	Status
Dormant Receivables	1,175,934,008	Outstanding for more than 10 years
Allowance for Impairment losses – *Receivable – Water/Sewer account*	(1,116,986,530)	
Net Total	**58,947,478**	
MWSI Guarantee Deposit	82,712,512	Settlement is part of the Revised Concession Agreement
MWCI Guarantee Deposit	65,583,130	Settlement is part of the Revised Concession Agreement
Grand Total	**207,243,120**	

It was noted that the details of these items were not established due to lack of available account summary of customers and subsidiary ledgers (SLs) together with other relevant documents.

a.v. In addition, the Other Receivables account includes guarantee deposits from MWSI and MWCI amounting to P82.713 million and P65.583 million, respectively.

These Guarantee deposits are customer deposits prior to the privatization of MWSS. The amounts were withheld by the two (2) concessionaires from the collection of accounts receivable from water and sewer services of MWSS on the onset of the privatization where the two concessionaires were authorized to collect and the concessionaires were expected to refund the collections to MWSS upon its collection from customers.

The Finance Department commented that the payment of Guarantee Fees by the Concessionaires is one of the conditions set forth under the Concession Agreement, however, they are still waiting for the effectivity of the RCA with the concessionaires. To date, there was no movement from the last year's reported balances and they also commented that the process of implementing previous year's audit recommendations is still on-going as they are still in the process of reconciliation.

b. Unadjusted Receivable accounts with abnormal/negative balances totaling P5.596 million.

b.i. Contrary to the generally accepted accounting principles, various receivable accounts were reported in the MWSS' books with abnormal balances totaling P5.596 million.

b.ii. The Finance Department explained that the noted abnormal balances are still subject for evaluation.

c. Discrepancy in the Due from Local Water Utilities Administration (LWUA) account amounting to P14.777 million between the balance per books of P14.979 million and the confirmed balance of P201,890.

c.i. A variance of P14.777 million was noted between the confirmed rental fee from the Local Water Utilities Administration (LWUA) and the lease receivable recorded in the books of MWSS. LWUA's unpaid rentals as of December 31, 2021 amounted to P14.979 million while confirmation received from LWUA for such rental fee shows a balance of P201,890 only.

c.ii. According to the Asset Management Departmnet, the lease contract with LWUA for the lease of MWSS' building and parking spaces with a total area of 10,238.68 sqm has already expired last July 31, 2019. Thus, on October 10, 2019, the MWSS Board issued Resolution No. 2019-164-CO, approving the increased monthly rental charges of LWUA from P24,889.00 to P892,599.59. The billing statements were sent monthly for the unpaid rentals, however, LWUA still pays the old rental rate of P24,889.00.

c.iii. They also revealed that the lease contract between MWSS and LWUA is not yet perfected due to the non-signing by the latter. According to them, LWUA appealed to MWSS for a lower rate and forwarded this appeal to the Board of Trustees, however, the Board recommended to first verify the financial status of LWUA before considering the request. The latest AAPSI submitted by the Management reported that discussion with LWUA is still on-going.

5.8. In addition, we noted that the Finance Department already provided allowance for impairment losses amounting to P1.117 billion. However, to date, there was no request submitted to this Commission for the authority to write-off the subject accounts.

5.9. COA Circular No. 2016-005 dated December 19, 2016, Guidelines and Procedures on the Write-off of Dormant Receivable Accounts, Unliquidated Cash Advances, and Fund Transfers of National Government Agencies (NGAs), Local Government Units (LGUs) and Government-Owned and Controlled Corporations (GOCCs), provides that:

> *xxx This Circular is issued to prescribe the **guidelines and procedures in reconciling and cleaning the books of accounts of NGAs, LGUs, and GOCCs of dormant receivable accounts**, unliquidated cash advances, and fund transfers for fair presentation of accounts in the FSs.*
>
> *xxx*

Impairment – a loss in the future economic benefits due to uncertainty of collectability of the receivables or the amount in respect of which recovery has ceased to be probable. xxx

5.10. In view of the above COA Circular, the Finance Department is expected to comply with the guidelines and procedures set forth under COA Circular No. 2016-005 after its initial recognition of the impairment losses, that is, to submit a proper request for the authority to write-off the subject accounts. Otherwise, MWSS' provision for impairment losses for the dormant receivables were only intended to clean the books of accounts and there was no consideration to the interest of the government.

5.11. **We recommended and Management agreed to require the:**

a. Finance Department and Legal Department to follow up on the resolution of the arbitration of the claims with MWSI amounting to P4.048 billion;

b. Finance Department to prepare a timetable on the prioritization of the review, analysis and adjustments of dormant accounts amounting to P58.947 million;

c. Finance Department and Legal Department to submit a request for authority to write-off the dormant accounts with allowance for impairment losses amounting to P1.117 billion in accordance with COA Circular No. 2016-005;

d. Finance Department to review the abnormal/negative balances amounting to P5.596 million and take-up the necessary adjusting entries; and

e. Consider entering into a Compromise agreement with LWUA for the gradual escalation on the rental rates.

5.12. Management added that they will make representations with MWSI and exert efforts in collecting the Disputed Claims. The legal documents and status of collection efforts shall be submitted accordingly. Further they commented that with regard to the dormant receivables, the Finance Department shall source out documentation of the previous requests for write-off which were previously submitted to the COA.

Donated Capital

6. **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 adversely affected the fair presentation of the subject account in the financial statements.**

6.1. Paragraph 27 of the IPSAS 1 – Presentation of Financial Statements discusses the requirement of faithful representation, as follows:

Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires *the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS. The application of IPSAS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.*

6.2. Sections 111 of the Presidential Decree No. 1445 states that:

Keeping of Accounts

The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.

6.3. The Donated Capital account has a year-end balance amounting to P1.047 billion. As disclosed in the Notes to Financial Statements, the account represents the costs of waterworks facilities turned over by private subdivisions by way of a Deed of Donation. It also includes the grant from the Japan International Cooperation Agency (JICA) for the rehabilitation of Balara Water Treatment Plant.

6.4. Verification with the accounting records disclosed that the only available information was the beginning balance of this account in the same amount and this was upon the migration of all MWSS accounts and balances when e-NGAS was adopted. Subsequent to the beginning balance in CY 2007, the account has no movement.

6.5. The Management explained that as early as CY 2001 the account was consistently reported with the same amount and that they have difficulty in the retrieval of the old accounting records since the privatization of MWSS.

6.6. **We recommended that Management require the Finance Department to gather documents in order to establish the validity/existence of the Donated Capital amounting to P1.047 billion.**

6.7. Management commented that the total Donated Capital pertains to the donation from Ayala Land Corporation for the Ayala Sewer Treatment Plant, Grant Aid from the Japanese Government through the Japan International Cooperation Agency (JICA) and other donations of waterworks from private subdivisions. Details are as follows:

Particulars	Amount
Donation from Ayala Land Corporation of Ayala Sewer Treatment Plant	P 319,757,801
Grant Aid from Japanese Government	635,311,998
Other donated Waterworks from Private Subdivisions	91,901,180
Total	**P1,046,970,979**

6.8. They also submitted copies of two (2) Transfer Certificate of Titles (TCTs) for the parcel of lands situated in the Municipality of Makati, under the name of MWSS, with total value of P373.859 million. Meanwhile, the Management commented that they will make representation with JICA to confirm the grant made in CY 1996.

6.9. We appreciated the efforts of the Management in its substantiation of the recognized Donated Capital; however, we cannot still determine the validity and accuracy of the account due to absence of the Deed of Donation evidencing the donation of properties of Ayala Land, Inc. to MWSS.

6.10. As a rejoinder, we maintain our position and recommend that the Finance Department and Legal Department make representation with the Ayala Land, Inc. and request for the copy of the documents of the subject donation.

Investment Property

7. **The validity and reliability of the Investment Property account amounting to P1.434 billion cannot be established contrary to IPSAS Nos. 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.**

7.1. IPSAS 1, Paragraph 27 provides that Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.

7.2. IPSAS 16 defines Investment Property as property (land or buildings-or part of a building-or both) held to earn rentals, or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or sale in the ordinary course of operations. Under the Government Accounting Manual, investment property includes:

a. Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;

b. Land held for a currently undetermined future use;

c. A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on a commercial basis;

d. A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties;

e. Property that is being constructed or developed for future use as IP; and

f. Significant portion of a property that is held to earn rentals or for capital appreciation rather than to provide services, and insignificant portion that is held for use in the production or supply of goods or services or for administrative purposes.

7.3. IPSAS 16 provides the measurement basis of the investment property during the initial recognition, as follows:

> 26. *Investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).*
>
> 27. *Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.*

7.4. The Investment Property account has a balance of P1.434 billion as of December 31, 2021, as follows:

	Investment Property
CY 2018 Ending Balance, per CY 2018 FS	0
CY 2019 Additions	593,706,416
CY 2020 Additions	1,440,494,040
CY 2021 Adjustments	(599,998,856)
CY 2021 Ending Balance, per CY 2021 FS	**1,434,201,600**

7.5. The Finance Department initially recognized the Investment Property account amounting to P593.706 million and P1.440 billion in CYs 2019 and 2020, respectively, through manual reclassification of the PPE account to Investment Property account. However, there were no adjustments reflected in the Subsidiary Ledgers (SLs) of the affected accounts. They explained that the non-creation of separate codes and separate records for the Investment Property account was due to the non-updating of the old version e-NGAS to reflect the RCAs. The most it can do is to create sub-ledger account, the Other Assets – Land account (290) instead of the appropriate Investment Property account.

7.6. In addition, in our examination of the previous inventory reports of the Asset Management Department, the following were noted:

a) Land items consisting of 57 lots were reported as Not-in-Service items in the CY 2017 Asset Management Department Report;
b) Two (2) lots located in Quezon City comprising of 101,499 sqm were used in the operations of Manila Water Company, Inc. (MWCI); and
c) 17 items of land that were recognized in the books as Other Assets costing P11.467 million were not included in the Physical Inventory Report.

7.7. The SLs of the 57 lots that were reported as Not-in-Service items by the Asset Management Department were recognized by the Finance Department as PPE and Other Assets, as follows:

				Amount
I.	13 lots	PPE Land	P	1,440,494,040
II.	44 lots	Other Assets Land		580,948,560
	57 lots		**P**	**2,021,442,600**

7.8. Moreover, the Finance Department asserted that the lots that were reported as not-in-service by the Asset Management Department were not idle lands.

7.9. Further, the Asset Management Department revealed that the CY 2021 Inventory was already completed, however, the inventory report submitted only consists of the Buildings, Other Structures, Equipment, Furniture and Fixtures and Motor Vehicles, while the Inventory Report for the Land items of MWSS was not yet submitted. According to them, the physical count of the Land items was made in five batches and currently, they are completing the documentation, consolidating the mapping and other data including the geotagging of lands under batch 5. Thus, the audit team requested them to submit a detailed composition of the Investment Property together with other supporting documents and records for our validation. However, to date, no documents were submitted nor comments received from them.

7.10. Due to the non-completion of the inventory taking and non-submission of (1) Latest Inventory Report; (2) Lapsing Schedule; 3) List of items recognized as Investment Property; (4) Reconciliation of adjusted accounts; and (5) other necessary documents, including the different representations of the Asset Management Department and the Finance Department for the current use/purpose and existing condition of the Land items, whether these were held for undetermined use or currently being use in the operations of the agency, we cannot establish the validity and accuracy of the Investment Property account amounting to P1.434 billion. The required adjustments could not be determined due to the absence of sufficient records and details.

7.11. **We recommended and Management agreed to require the:**

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, OCT/TCT number, last date of inspection, current use/purpose, existing condition, copy of actual/recent photos, copy of TCT/OCT 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.**

7.12. Management commented that it has completed the List of the Not in Service items under General Ledger accounts 201 and 290 together with the List of MWSS Real Properties for CY 2021. The AMD submitted a listing of Not in-service asset for CYs 2019 to 2021. They stated that they will further provide some relevant information on the listed real properties. The Physical Inventory of the accounts is still ongoing, which will reflect the asset condition upon preparation of the Physical Inventory Report, thus we maintain our audit recommendation as discussed above.

Other Assets

8. **The Other Assets accounts amounting to P744.001 million remained unreconciled, unsupported and dormant for several years that cast doubt on the existence and validity contrary to IPSAS Nos. 1 and 21 and Sections 102 and 111 of P.D. No. 1445.**

8.1. Paragraph 27 of IPSAS 1 – Presentation of Financial Statements provides that:

> *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.*

8.2. Sections 102 and 111 of Presidential Decree No. 1445 provides that:

> *Section 102. Primary and secondary responsibility.*
>
> 1. *The head of any agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency.*
>
> *Section 111. Keeping of accounts*
>
> *(1) The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*

8.3. Paragraph 26 of IPSAS 21 – Impairment of Non-Cash-Generating Assets provides that:

> *An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset.*

8.4. This is a reiteration of prior years' audit observations.

8.5. Our analysis of the account revealed that it pertains to various assets which remained dormant for several years. A three-year comparative analysis is presented, showing no movement, as follows:

Particulars	**2021**	**2020**	**2019**
Dormant Accounts	P 688,359,479	P 688,359,479	P 688,359,479
Non-operational Assets	38,816,036	38,816,036	38,816,036
Garnished Accounts	10,613,512	10,613,512	10,613,512
Research and Development	6,212,055	6,212,055	6,212,055
Total	**P 744,001,082**	**P 744,001,082**	**P 744,001,082**

8.6. These accounts were consistently raised to the Finance Department for having no proper validation, inventory taking, policy and any future plans necessary for the review of the dormant accounts in order to determine the necessary adjustments. According to them, there were no available documents since it was only migrated to the eNGAs in CY 2007 and there were no other references but the beginning balances.

8.7. To date, there was no action taken on the provision of impairment losses since the documents supporting the claims are still to be retrieved. They commented that they are not aware of any specific written policy of MWSS for the provision of impairment of dormant assets and they added that they will check the applicable standards with regards to the provision for impairment.

8.8. **We recommended and Management agreed to require the Finance Department and Asset Management Department to prepare a timetable on the prioritization of review and analysis of dormant accounts, non-operational, Garnished and Research and Development accounts to determine the necessary adjustments to be taken-up in the books.**

8.9. Management also commented that they will provide an allowance for impairment losses on the dormant accounts as necessary. Furthermore, the Management committed to exert effort to locate the documents to determine the balances reflected on the non-operational assets.

Cash and Cash Equivalents

9. **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.**

9.1. Paragraph 27 of the IPSAS 1 – Presentation of Financial Statements discusses the requirement of faithful representation, as follows:

> *Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS. The application of IPSAS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.*

9.2. The MWSS presented Cash and Cash Equivalents in the CY 2021 Statement of Financial Position with a balance of P3.691 billion, composed of the following:

Account		Balance
Cash on hand	Cash-Collecting Officers	1,216,606
	Cash-Disbursing Officers	489,047

	Petty Cash	62,435
Cash in Bank-Local Currency	Cash in Bank-Local Currency, CA	203,158,957
	Cash in Bank-Local Currency, SA	4,052,650
Cash in Bank-Foreign Currency	Cash in Bank-Foreign Currency, SA	55,920
Cash Equivalents	Time Deposits-Local Currency	3,480,639,686
	Time Deposits-Foreign Currency	1,674,837
Total Cash and Cash Equivalents		**3,691,350,138**

9.3. The Cash in Bank – Local Currency and Foreign Currency is composed of various bank accounts which showed a total discrepancy between the balance per books and the amount per bank confirmation of P45.245 million. Details of the bank accounts with noted variances are shown as follows:

Bank	Balance per Book	Balance per Bank	Variance
Local C/A – LBP	57,378,566	105,383,942	(48,005,376)
Local S/A-DBP	3,892,786	583,251	3,309,535
Local C/A – LBP	89,007,172	89,555,932	(548,760)
Total	150,278,524	195,523,125	**(45,244,601)**

9.4. For the Local C/A-LBP accounts, the discrepancies pertain to the book reconciling items, as disclosed in the bank reconciliation statement, however, the reconciling items were not recognized by the Finance Department in the books.

9.5. For the Local S/A-DBP account, the variance pertains to the difference between the balance per Bank Confirmation reply and the balance per SL.

9.6. As per inquiry with the Finance Department, the noted discrepancies will be evaluated and will make necessary adjustments, if warranted. It is also informed that bank confirmation requests were sent to Local C/As-LBP accounts, however, we have not yet received a response.

9.7. **We recommended and Management agreed to direct the Finance Department to review and analyze the reconciling items and prepare the necessary adjusting entries.**

9.8. Management added that the noted discrepancies pertain to unrecorded receipts and other reconciling items which shall be accounted for in CY 2022, upon issuance of the corresponding Official Receipts and sourcing out of supporting documents necessary for adjustments.

Advances to Contractors

10. **The reliability and accuracy of the Advances to Contractors account cannot be established due to dormant balances of completed projects amounting to P298.928 million that remained unrecouped and existence of abnormal balances amounting**

to P20.526 million which affected the fair presentation of the accounts contrary to IPSAS 1.

10.1. This is a reiteration of prior years' audit observations.

10.2. Analysis of the Advances to Contractors account with year-end balance of P2.194 billion, as follows:

Particulars	Balance
On-going Projects	1,836,798,710
Completed Projects	
Mobilization	295,938,725
Prepaid Material Cost	2,989,770
Completed Projects- Abnormal	(20,526,058)
For Reconciliation	78,823,893
Total	**2,194,025,040**

10.3. Audit disclosed that since CY 2013 there were unrecouped and unreconciled items totaling P298.928 million and eight subsidiary ledgers have abnormal balances totaling P20.526 million.

10.4. The Finance Department informed that based on their recollection, these accounts pertain to old projects of MWSS and that they even tried to collect the balances from the contractors, however, the contractors contended that it was MWSS that has to pay them since MWSS has remaining unpaid balances. The Finance Department also explained that they are still in the process of looking for the documents, however, they cannot still locate the supporting documents and that since CY 2019, they have not sent demand letters to the contractors.

10.5. This has been raised in the prior years' audit reports, but until now, the advances remained dormant and unrecouped. The Finance Department explained that the responsible employees who processed the advance payments to the contractors have already been separated and/or retired from the service. They added that efforts will be exerted to send billings to contractors who can still be traced or located and subsequently, legal action will be undertaken by the Legal Services Department. Also, reconciliation will be made for the negative balances in the Advances to Contractors account. However, to date, there were no actions taken by the Finance Department and they still did not coordinate the issues to the Legal Services Department.

10.6. **We recommended and Management agreed to direct the:**

a. **Finance Department to analyze the Advances to Contractors account, determine the causes of the negative balances and prepare the necessary adjustments to reflect the correct and accurate balances; and**

b. **Legal Services Department to send demand letters to all contractors of completed projects with outstanding balances to recover the advances or take legal actions, as warranted.**

10.7. Management further commented that they will exert extra effort in locating the supporting documents to substantiate the balances reflected in the advances to contractor's account which shall serve as the basis of the Legal Services Department in drafting and sending out the corresponding demand letters.

Other Payables

11. **The validity and reliability of the Other Payables account totaling P47.148 million cannot be ascertained due to inclusion of dormant accounts and abnormal balances amounting to P38.999 million and P8.149 million, respectively, which affected the fair presentation of the financial statements contrary to paragraph 27 of IPSAS 1 and Executive Order (E.O.) No. 87, series of 2019.**

11.1. Sections 1 and 2 of E.O. No. 87, series of 2019, provide that:

> 1. *Reversion of Documented Accounts Payable. All documented accounts payable for fiscal year 2016 and years prior thereto shall be reverted to the Accumulated Surplus or Deficit of the General Fund, or the Cumulative Result of Operations of the National Government. Henceforth, all documented accounts payable which remain outstanding for at least two years, for which no actual administrative or judicial claim has been filed, shall be subject to automatic reversion.*
>
> 2. *Treatment of Undocumented Accounts Payable. All accounts payable which are undocumented or not covered by perfected contracts on record, regardless of the year in which they were incurred, shall automatically be reverted. The recording of undocumented accounts payable in the books of accounts of agencies shall be strictly prohibited.*

11.2. Previous year's audit on the Other Payables account revealed that numerous subsidiary accounts remained outstanding/dormant for several years and also includes abnormal balances. However, as per the Agency Action Plan and Status of Implementation dated October 26, 2021, both of the previous year's COA recommendations were still not implemented.

11.3. Current year's audit of this account revealed that several accounts still remained outstanding/dormant as of December 31, 2021, amounting to P38.999 million. This amount consists of numerous payees with subsidiary records totaling 805 accounts. More so, there are subsidiary ledgers with abnormal balances totaling P8.149 million.

11.4. The Finance Department is already informed about the reported Other Payables account and responded that they will adjust the account for items with discrepancies and take proper action for reconciliation and tracing if the obligation still exists. Also, they are aware of the recent issuance regarding the reversion of accounts payable. They added that evaluation will be considered in the subsequent periods on how to comply with the guidelines on the reversion of dormant accounts payable.

11.5. **We recommended and Management agreed to require the Finance Department to:**

a. **Prepare timetable to prioritize the evaluation of dormant Other Payables accounts for review, analysis, and adjustments; and**

b. **Analyze the Other Payables account with negative balances and determine the causes, and prepare the necessary adjustments to reflect the correct and accurate balances.**

11.6. Management also commented that they will evaluate the dormant balances for reversion to the Accumulated Surplus/(Deficit) in compliance with E.O. No. 87 and to make necessary adjustments on negative balances upon reconciliation

Salaries and Wages

12. **The non-submission of the Disbursement Vouchers (DVs) and supporting documents relative to the Salaries and Wages of Regular and Casual/Contractual employees amounting to P22.036 million and Salaries and Wages of Contract of Service (COS) employees amounting to P1.026 million casts doubt on the validity and reliability of the accounts and contrary to Section 4 of PD No. 1445 and paragraph 27 of IPSAS 1.**

12.1. Section 4 of the PD No. 1445 laid down the fundamental principles governing the financial transactions and operations of an agency which includes, among other, that Claims against government funds shall be supported with complete documentation.

12.2. In our review of the salaries and wages of the regular and casual/contractual employees, we noted that DVs amounting to P22.036 million were not submitted by MWSS. In addition, we also noted that the documents of the Other Professional Services account for the months of June to December 2021 amounting to P1.026 million were not also submitted for audit.

12.3. The Finance Department explained that the non-submission of DVs is caused by the ongoing scanning of vouchers prior to its submission.

12.4. **We recommended that Management require the Finance Department to immediately submit the DVs on salaries and wages of MWSS employees including its supporting documents in order to establish the validity of the accounts.**

12.5. The Finance Department submitted partial compilation of Reports on Salaries and Wages & Other Professional Services.

12.6. As our rejoinder, we maintain our position that the Finance Department submit all the relevant DVs to preclude the issuance of Notice of Suspension.

Investment in Stocks

13. **The existence and accuracy of the Investment in Stocks account amounting to P2.104 million cannot be ascertained due to the unaccounted certificate of stocks amounting to P193,830 which affected the fair representation of the accounts contrary to paragraph 27 of IPSAS 1 and Section 111 of PD No. 1445.**

13.1. The books of MWSS CO presented the CY 2021 and CY 2020 ending balances:

Investment in Stocks	CY 2021	CY 2020
PLDT shares	372,650	372,650
MERALCO shares	2,151,518	2,151,518
Allowance for Impairment Loss – MERALCO	(420,038)	0
TOTAL	**2,104,130**	**2,524,168**

13.2. The Finance Department submitted the original copies of PLDT and MERALCO stock certificates for re-validation. In addition, on March 21, 2022, the Management requested the PLDT and MERALCO the relevant information to verify and reconcile the correct balances of their Investment in Stocks. On June 1, 2022, the MERALCO responded to the confirmation request of MWSS and confirmed 161,180 shares with a total value of P1.612 million. However, to date, there was no response received from PLDT.

13.3. Thus, as a result of our validation of the original stock certificates and MERALCO's confirmation reply, we noted that unaccounted stock certificates amounting to P193,830, as follows:

Investment in Stocks	Per books	Per Audit	Unaccounted
PLDT shares	372,650	298,500	74,150
MERALCO shares	1,731,480	1,611,800	119,680
TOTAL	**2,104,130**	**1,910,300**	**193,830**

13.4. The Finance Department informed that the documents transmitted are the only stock certificates that are available to them that were kept in the vault of the Cashier's Office in the Finance Department.

13.5. **We recommended and Management agreed to direct the Finance Department to secure the copies of the stock certificates and provide additional impairment losses on the investment in stocks with MERALCO.**

Mandatory Contributions

14. **Validity and accuracy of the Due to GSIS, Pag-IBIG, and PhilHealth accounts cannot be ascertained due to the following deficiencies which affected the fairness of presentation of the accounts in the financial statements contrary to paragraph 27 of IPSAS 1:**

a. **Discrepancy of P503,587 was noted between the Financial Statements and the actual amount withheld/remitted by MWSS to the government institutions;**

b. **The Due to GSIS, Pag-IBIG, and PhilHealth accounts include abnormal items totaling P188,933; and**

c. **Unreconciled balance of P39,130 between the Financial Statements and the General Ledger.**

14.1. **Discrepancy of P0.504 million was noted between the Financial Statements and the actual amount withheld/remitted by MWSS to the government institutions.**

a. CY 2021 audit of the Financial Statement balances as compared to the actual amount withheld and remitted by MWSS, disclosed discrepancies totaling P0.504 million, as follows:

Account Name	Financial Statements	Amount Withheld/ Remitted by MWSS	Discrepancy
Due to GSIS	2,281,547	1,963,913	317,634
Due to Pag-IBIG	127,109	24,500	102,609
Due to PhilHealth	237,402	154,058	83,344
Total	**2,646,058**	**2,142,471**	**503,587**

b. In our examination of the Schedule of the Finance Department, the monitoring document of MWSS for the actual remittances of mandatory contributions to the government institutions, we noted that P2.142 million was withheld by MWSS for the month of December 2021 and was properly remitted to the government institutions on January 2022. However, as per verification, the Due to GSIS, Pag-IBIG and PhilHealth accounts has an outstanding balance of P2.646 million in the books, thus a discrepancy of P0.504 million.

c. The noted discrepancies were presented to the Finance Department for their confirmation; however, they explained that their verification is still on-going and that they still need to reconcile the beginning balances, thus, remained unsettled.

14.2. **The Due to GSIS, Pag-IBIG, and PhilHealth accounts include abnormal items amounting to P188,933.**

a. Analysis of the ledger accounts revealed that there were numerous employees with abnormal balances as of December 31, 2021, as follows:

Contribution Accounts	Abnormal Balances
Due to GSIS	172,490
Due to Pag-IBIG	6,647
Due to PhilHealth	9,796
Total	**188,933**

b. As per inquiry with the Finance Department, these abnormal balances will still be evaluated and verified and necessary adjustments will be made.

14.3. **Unreconciled balance of P39,130 between the Financial Statements and the General Ledger.**

a. Verification of balances between the MWSS General Ledger and the financial statements revealed that there were accounts that do not tally with the financial statements, summarized as follows:

Account Code	General Ledger	Financial Statements	Variance
Due to Pag-IBIG	116,259	121,802	(5,543)
Due to PhilHealth	203,815	237,402	(33,587)
Total	**320,074**	**359,204**	(39,130)

b. The Finance Department commented that the variance is yet to be determined as to the cause of variances from the general ledger to the financial statements.

14.4. **We recommended that Management require the Finance Department to:**

a. Make necessary reconciliation regarding the discrepancy of P503,587 between the Financial Statements and the actual amount withheld/remitted by MWSS to the government institutions and prepare the necessary adjusting entries, if warranted;

b. Review and analyze the abnormal items amounting to P188,933 and prepare the necessary adjusting entries; and

c. Reconcile the noted discrepancy of P39,130 between the Financial Statements and the General Ledger.

14.5. Management commented that the noted discrepancies have been reconciled and addressed in the revised financial statements as submitted.

14.6. However, as per verification of the revised financial statements, there were no changes and the noted discrepancies still exists, thus, we maintain our position for the Management to implement our audit recommendations.

B. Financial Audit – Regulatory Office

Property Plant and Equipment

15. **The reliability and accuracy of the Property Plant and Equipment (PPE) account amounting to P116.635 million is doubtful due to the absence of property inventory reports which affected the faithful presentation of financial statements contrary to IPSAS 1 and 17.**

15.1. Paragraph 14 of IPSAS 17 provides:

The cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or fair value of the item can be measured reliably.

15.2. Section III of COA Circular No. 80-124 dated January 18, 1980, which is aligned with Section 105 of PD 1445 states that:

The head of government-owned and/or controlled corporations and subsidiaries including self-governing boards, commissions, agencies and state colleges and universities ***shall exercise the diligence of a good father of a family in supervising accountable officers under his control to prevent the incurrence of loss of government property****, otherwise, he shall be jointly and solidarily liable with persons primarily accountable therefor. (emphasis ours)*

15.3. Section V, Item 3 of COA Circular No. 80-124 likewise required the issuance of a memorandum receipt as proof of possession and accountability of a government property, as follows:

An officer or employee who receives and is in actual possession or physical control of the property shall sign a Memorandum Receipts (Gen. Form No. 32) for such property and shall be accountable therefor. Such Memorandum Receipts for property in the custody of an officer or employee shall be renewed every three years.

15.4. In our audit of the CY 2021 Property Plant and Equipment account of MWSS-RO, we noted that there were PPE items turned-over by the University of the Philippines National Engineering Center (UP-NEC) amounting to P116.635 million that remain unaccounted, as follows:

Acquisition Date	Description	Accountable Persons	Acquisition Cost
09/03/2003	PAWS Project Cost		115,446,818
12/31/2008	UPNEC PAWS II - Computer Software		71,286
01/31/2010	Liquidation of Advances PAWSII Year 3		365,060
01/31/2010	Liquidation of Advances PAWSII Year 3		751,824
		TOTAL	**116,634,988**

15.5. The submitted inventory count form lacked signature from the inventory committee member who conducted the count and indicated that these items cannot be accounted and we also noted that these items were marked as unserviceable in the ledgers. Further validation revealed that Senior Property Officer could not substantiate the breakdown of the subject PPE items, and that memorandum receipts were not issued to any accountable officers for the specific PPE items and all the noted conditions were not properly reflected and disclosed in the CY 2021 Financial Statements. Inquiry with the Senior Property Officer disclosed that the subject items were mostly computer equipment and were already defective and shall be subjected for disposal.

15.6. **We recommended and Management agreed to require the:**

   a. **Senior Property Officer to gather supporting documents and details of the PPE items turned-over by UP-NEC totaling P116.635 million, and submit the same to the Accounting Section;**

   b. **Accounting Section to take-up the necessary adjustments to specific accounts, if warranted; and**

   c. **Senior Property Officer to issue Memorandum Receipt for Property to the accountable officers.**

15.7. According to Management, the PPE items noted were development costs incurred for the Public Assessment of Water Services (PAWS) Project which started in CY 1999 for the development of a survey system, while the other items are other software. The Management committed to specifically identify these items and reclassify as Intangible Assets.

16. **Unserviceable items in the Other Assets account totaling P1.095 million remained undisposed due to lack of relevant policies may result in further deterioration and wastage of government properties contrary to paragraph 34 of IPSAS 21 and Section 79 of PD 1445.**

16.1. Section 79 of PD 1445, otherwise known as the Government Auditing Code of the Philippines, provides the responsibility of the agency over the destruction or sale of unserviceable property, as follows:

> *When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee an award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, after advertising by printed notice in the Official Gazette, or for not less than three consecutive days in any newspaper of general circulation, or where the value of the property does not warrant the expense of publication, by notices posted for a like period in at least three public places in the locality where the property is to be sold. In the event that the public auction fails, the property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission.*

16.2. DBM National Budget Circular (NBC) No. 425 dated January 28, 1992, also known as the Manual on the Disposal of Government Property provides that disposal proceedings should be immediately initiated to avoid further deterioration of the property and consequent depreciation in its value.

16.3. Paragraph 34 of IPSAS 21 further provides that:

> *If there is an indication that an asset may be impaired, this may indicate that (a) the remaining useful life, (b) the depreciation (amortization) method, or (c)* ***the residual value for the asset needs to be reviewed and adjusted in accordance with the IPSAS applicable to the asset****, even if no impairment loss is recognized for the asset.*

16.4. This is a reiteration of prior years' audit observation.

16.5. As of December 31, 2021, the MWSS-RO have reported in their General Ledger, as part of the Other Assets account, unserviceable assets totaling P1.095 million that remained undisposed due to absence of policy regarding its monitoring and disposal. Furthermore, the Management is yet to provide an inventory of unserviceable assets to support the reported amount.

16.6. Upon inquiry, Management informed that they are still in the process of completing the list of assets for disposal which was delayed due to the movement to their new building.

16.7. **We recommended and Management agreed to require the:**

a. Property Section to expedite the disposal of unserviceable assets amounting to P1.095 million in compliance with Section 79 of PD 1445 and DBM NBC No. 425; and

b. Accounting Section to review the residual value of the unserviceable assets in compliance with paragraph 34 of IPSAS 21.

16.8. Management commented that the inventory taking of the unserviceable assets is still ongoing and they plan to pursue the disposal in CY 2022.

Receivables

17. **Non-recognition of the Notices of Disallowance (ND) amounting to P13.454 million in the books of accounts with issued Notice of Finality of Decision (NFD) resulted in the understatement of the Receivables account and contrary to Section 7.2 and 22.6 of COA Circular No. 2009-006 and paragraph 27 of IPSAS 1.**

17.1. Section 7.2 of COA Circular No. 2009-006 dated September 15, 2009 re: Rules and Regulations on Settlement of Accounts (RRSA) states, among others, the Responsibility of the Agency Accountant for NFDs received, as follows:

> *7.2.1 The Chief Accountant, Bookkeeper or other authorized official performing* accounting *and/or bookkeeping functions of the audited agency shall ensure that:*

x x x

*d) The disallowances and charges **that have become final and executory as contained in the Notice of Finality of Decision (NFD) are recorded in the books of accounts**, and settlements thereof under the NSSDC are dropped therefrom; and*

e) The subsidiary ledgers/records are maintained and properly updated for each official/employee determined to be liable/ responsible for the amount disallowed/charged/suspended. (emphasis ours)

17.2. Section 22.6 of the same Circular emphatically states that the Chief Accountant shall, on the basis of the NFD, record in the books of accounts, the disallowance and/or charge as receivable.

17.3. In CYs 2013 to 2015, the then Resident Auditor issued seven Notices of Disallowance (NDs) totaling P13.454 million for the payment of several benefits and allowances and all the NDs were sustained by the Office of the Cluster Director through the issuance of Notices of Finality Decision (NFDs) and became final and executory due to absence of an appeal filed within the prescribed period.

17.4. However, in our examination of the accounting records of MWSS-RO as of December 31, 2021, we noted that there was no recognition of receivables for the subject disallowances with issued NFDs. During an inquiry, Management explained that they were not able to recognize the amount as receivables due to absence of the COA Order of Execution (COE).

17.5. Section 7.2.1 of COA Circular No. 2009-006 provides that the Chief Accountant, Bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that the disallowances and charges that have become final and executory as contained in the NFD are recorded in the books of accounts, and settlements thereof under the NSSDC are dropped therefrom; and the subsidiary ledgers/records are maintained and properly updated for each official/employee determined to be liable/ responsible for the amount disallowed/charged/suspended. Hence, the subject Circular stated that the recognition in the books of accounts of receivables from disallowances is based on NFD and not on COE.

17.6. **We recommended and Management agreed to require the Agency Accountant to recognize the seven NDs with issued NFD amounting to P13.454 million as Receivables-Disallowances/Charges and maintain the subsidiary ledgers.**

17.7. The Accounting Section committed to make the necessary journal entry to recognize the seven NDs with issued NFD amounting to P13.454 million as Receivables-Disallowances/Charges.

18. **Receivable and PPE accounts are misstated due to non-recognition of the property received from an employee as settlement of the Multi-Purpose Loan Program (MPLP) amounting to P0.514 million which affected the fair presentation of the accounts contrary to IPSAS 1.**

18.1. An employee who availed the MPLP had an outstanding balance in the books of accounts of P0.514 million, however, we noted that in October 2017, the vehicle that secured the loan had been placed under the custody of the MWSS-RO. To date, the account of the employee remains the same in the books even after more than four years of MWSS RO's possession of the vehicle securing the loan.

18.2. Upon inquiry, the receipt of the vehicle was not recognized in the books since the Legal Department has not yet initiated the process of transferring the ownership of the motor vehicle to MWSS-RO.

18.3. **We recommended that Management require the:**

a. **Senior Property Officer to determine the fair market value of the motor vehicle received as settlement;**

b. **Accounting Section to effect in the books the receipt of the vehicle and derecognition of receivables amounting to P0.514 million; and**

c. **Administration and Legal Departments to take the appropriate action for the registration of transfer of ownership over the vehicle and for the preservation of the property in accordance with the laws covering such transactions.**

18.4. Management commented that the Accounting Section will make the necessary journal entries to record in the books the receipt of the vehicle upon submission from the Senior Property Officer of the determined fair market value of the subject vehicle. In addition, the Legal Affairs Department informed the Property Section that MWSS RO may not be able to acquire the ownership of the subject vehicle by reason of default by the debtor. As an alternative, the MWSS RO may dispose of the said vehicle and the MWSS RO may apply the proceeds of the said sale to the obligation of the debtor.

18.5. As a rejoinder, we maintain all our audit recommendations.

Unreconciled and Unsupported Assets and Liabilities

19. **The validity and reliability of the Due from Officers and Employees, Other Payables and negative Prepayment accounts amounting to P1.354 million, P0.664 million, and P145,855, respectively, cannot be established due to non-submission of documents which affected the fair presentation of the said account balances and contrary to IPSAS 1, PD 1445, COA Circular No. 2016-005, DBM-COA Joint Circular No. 1 s. 2021, and Executive Order No. 87, s. 2019.**

19.1. COA Circular No. 2016-005 dated December 19, 2016 prescribes the guidelines and procedures in reconciling and cleaning the books of accounts of National Government Agencies (NGAs), Local Government Units (LGUs) and Government-Owned and

Controlled Corporations (GOCCs) of dormant receivable accounts, unliquidated cash advances and fund transfer for fair presentation of accounts in the financial statements. Section 6.1 of the aforementioned circular states that:

> *All government entities shall conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable… x x x.*

19.2. Section 2 of Executive Order No. 87, s. 2019 provides that:

> *All accounts payable which are undocumented or not covered by perfected contracts on record, regardless of the year which they are incurred, shall automatically be reverted.* ***The recording of undocumented accounts payable in the books of accounts of agencies shall be strictly prohibited.*** *(emphasis ours)*

19.3. Relevant provisions of Sections 4 and 5 of DBM-COA Joint Circular No. 1 s. 2021 dated March 8, 2021 stated the general and procedural guidelines in the reversion of Accounts Payable (A/P) which remain outstanding for two (2) years or more in the books, as follows:

> *4.1 In line with Section 1 of E.O. No. 87,* ***NGAs/GOCCs shall revert all A/Ps for FY 2017 and prior years thereto in the Accumulated Surplus/(Deficit) on or before the end of 2021.***
>
> *xxx*
>
> *4.6 All government entities concerned shall prepare an inventory of A/Ps incurred in FY 2017 and years prior thereto, as of December 31, 2020. It shall reflect the name of creditor, Obligation Request and Status (ORS) Number, allotment class, funding source, year of incurrence and obligations, etc., and shall be submitted to DBM and COA not later than June 30, 2021. Such inventory shall serve as one of the bases for reversion of the A/P and for the purpose of payment after reversion, subject to agency validation procedures. (emphasis ours)*

19.4. Paragraphs 27 and 48 of IPSAS 1 - Presentation of Financial Statements state that:

> *27. Financial statements shall present fairly the financial position financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.*
>
> *xxx*

48. Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.

19.5. Verification of the accounts of MWSS-RO for CY 2021 revealed that the subsidiary records for the following receivable accounts amounting to P1.354 million were not maintained:

Account Name	**Balance as of December 31, 2021 without subsidiary records**
Due from Officers and Employees – Health Insurance	942,840
Due from OE – MVFP Insurance	75,615
Due from OE – Others	52,262
Other Receivables	283,004
TOTAL	**1,353,721**

19.6. In addition, the reported Other Payables account totaling P664,084 remained outstanding and dormant for several years. Further, the Prepayments account in the CY 2021 Statement of Financial Position of the Regulatory Office included a negative balance amounting to P145,855. The subject account was classified as Other Prepaid – WF Gov't.

19.7. Management explained that these are unreconciled balances that existed prior to the implementation of the Peachtree Accounting System in CY 2008. In addition, there was no reconciliation made for this account due to difficulty in finding the supporting documents. Management also explained that they could not identify the propriety of the payable accounts and could not properly revert the outstanding payables due to lack of details.

19.8. **We recommended and Management agreed to require the Accounting Section to:**

a. Review, analyze, and reconcile the details of the Due from Officers and Employees and Other Payables accounts as well as the negative items in the Prepayments account; and

b. Prepare the necessary adjustments and maintain the necessary subsidiary records for the fair presentation of accounts.

19.9. However, the Management commented that they cannot reverse the payables yet since those are pertaining to the unclaimed final pay of separated employees. Management plans to examine the account and create subsidiary records to settle the payables. They added that the analysis and reconciliation of the subject receivable accounts is ongoing with the assistance of a newly hired Financial Analyst engaged through Contract of Service. In addition, Management requested the assistance of COA for the retrieval of financial records to expedite the reconciliation.

19.10. As a rejoinder, the Management may request the documents to COA, provided that, MWSS RO will comply with the guidelines set forth under COA Circular 2013-006.

C. Other Audit Observations – Corporate Office

New Centennial Water Sources – Kaliwa Dam Project

20. **Incurrence of Commitment fees totaling P45.782 million for CYs 2020 and 2021 caused by the delays in the commencement of the actual physical construction activities of the Kaliwa Dam Project due to non-completion of the application of the necessary permits pursuant to the conditions and restrictions of the Department of Environment and Natural Resources (DENR) that resulted in unnecessary expenditures to the government and contrary to Section 2.6 of the Preferential Buyer's Credit Loan Agreement and COA Circular No. 2012-003.**

In addition, MWSS' recognition of the Construction in Progress account for the incurrence of the Commitment Fees resulted in the overstatement of the asset account and understatement of the expense account by P45.782 million and contrary to IPSAS 1 and COA Circular No. 2020-001.

20.1. Section 4.1 of COA Circular 2012-003 dated October 29, 2012 provides that:

> ***UNNECESSARY EXPENDITURES***
>
> *4.1. Definition*
>
> *The term pertains to expenditures which could not pass the test of prudence or the diligence of a good father of a family, thereby denoting non-responsiveness to the exigencies of the service.* ***Unnecessary expenditures are those not supportive of the implementation of the objectives and mission of the agency relative to the nature of its operation****. This would also include incurrence of expenditure not dictated by the demand of good government, and those the utility of which cannot be ascertained at a specific time. An expenditure that is not essential or that which can be dispensed with without loss or damage to property is considered unnecessary. The mission and thrusts of the agency incurring the expenditures must be considered in determining whether or not an expenditure is necessary.* (emphasis supplied)

20.2. Section 2.6 of the Preferential Buyer's Credit Loan Agreement ("Loan Agreement") which was executed by and between the MWSS and the Export-Import Bank of China ("China EximBank"), as reproduced:

> ***2.6 Commitment Fee.*** *The rate applicable to the Commitment Fee shall be zero-point three percent (0.30%) per annum. During the Availability Period, the Borrower shall pay semi-annually to the Lender a Commitment Fee calculated on the undrawn and uncancelled Facility.*

The Commitment Fee shall accrue from and including the date falling (30 days) after the date on which this Agreement becomes effective and shall be calculated on the basis of the actual number of days elapsed and a 360-days year. The Commitment Fee shall accrue on a daily basis and be paid in arrears to the account designated in Article 4.5 on each Interest Payment Date.

20.3. Annex A of COA Circular No. 2020-001 defined **Commitment fees**, as follows:

This account is debited to recognize the commitment charges imposed by creditors based on an agreed percentage of the undrawn loan amount with foreign or domestic lending institution. *This account is credited, at year end, to close to the Revenue and Expense Summary account, and/or adjustments.*

20.4. The Kaliwa Dam Project was financed by an Official Development Allowance loan facility as embodied in the Preferential Buyer's Credit Loan Agreement ("Loan Agreement") which was executed by and between the MWSS and the Export-Import Bank of China ("China EximBank") on November 20, 2018 for the amount of US$211.215 million. Review of the loan-related disbursements on the NCWS-KDP for CYs 2020 and 2021 disclosed that MWSS paid a total amount of commitment fees of P45.782 million, summary of the details is shown as follows:

Year Incurred	Commitment Fees
2020	18,769,508
2021	27,012,348
Total	**45,781,856**

20.5. In our examination of the account, we noted that the available undrawn loan facility is approximately 85 percent of the total loan amount of USD 211.215 million. Hence, the substantial portion of the loan facility is not optimally utilized which consequently leads to incurrence of commitment fees.

20.6. The incurrence of the commitment fees was due to the delay in the commencement of the actual physical construction activities of the Kaliwa Dam Project. To date, the MWSS still lacks the necessary permits and licenses, as required in the Environmental Compliance Certificate (ECC) issued by the Department of Environment and Natural Resources – Environmental Management Bureau (DENR-EMB).

20.7. The DENR requires MWSS to satisfy the ECC conditions and restrictions before any commencement of activities, particularly the following:

- *Compliance to the requirements of the National Integrated Protected Areas System Act as Amended (RA 7586 as amended by RA 11038) and other relevant rules and issuances;*

- *Necessary certifications from the National Commission on Indigenous Peoples (NCIP) prior to project implementation xxx*

20.8. Hence, MWSS' compliance with the DENR requirements is a vital stage in the implementation of the Kaliwa Dam project. The longer the period it takes for MWSS to secure the necessary permits and licenses, the longer the loan facility remains unutilized entails greater incremental costs to the government.

20.9. In addition, we noted that the incurred commitment fees amounting to P45.782 million was recognized as *Construction-in-Progress* account instead of *Commitment Fees*, resulting to overstatement of the asset account and understatement of the current expenses.

20.10. **We recommended that Management require the:**

a. Project Management Office of the Engineering and Technical Operations Group to secure the necessary permits and licenses as required by the DENR to proceed with the construction phase of the project; and

b. Finance Department to provide the correcting entries for the recognition of Commitment Fees amounting to P45.782 million.

20.11. Management in its letter reply dated June 7, 2022 emphasized its untiring and proactive efforts in securing the Free, Prior and Inform Consent (FPIC) since 2015 to expedite the process. It stated that it has sought the assistance of the Anti-Red Tape Authority (ARTA) to mediate and expedite the usual process of securing the Certificate of Precondition. It also stated that it has already submitted the comprehensive FPIC report including the signed MOAs which is now under deliberation of the NCIP. Management also said that the Special Use Agreement in Protected Areas (SAPA) under RA 7586, can be issued only after the pre-requisite Certificate of Precondition has been secured. The land acquisition under the tunnel port area has been affected by the unprecedented spread of the Coronavirus Disease 2019 (COVID19). They added that the actual delays in the implementation of the project which resulted in the incurrence of commitment charges was beyond MWSS control.

20.12. We appreciate the efforts being done by Management in securing the FPIC, however, we have not received the copies of the abovementioned documents such as comprehensive FPIC report, signed MOAs, and correspondences with the ARTA for our proper evaluation.

20.13. As a rejoinder, we maintain our position that MWSS should obtain all the necessary permits and licenses in order to utilize the loan facility for the implementation of the Kaliwa Dam Project and avoid the incurrence of unnecessary commitment fees.

Angat Sinking Fund Reserve

21. **The non-reconciliation of the Angat Sinking Fund Reserve account amounting to P29.510 million between the books and the bank and the non-submission of**

documents may result in possible losses to the government and contrary to Sections 4, 58 and 102 of PD 1445.

21.1. Section 4 (4) of PD 1445 states that, *"Fiscal responsibility shall, to the greatest extent, be shared by all those exercising authority over the financial affairs, transactions, and operations of the government agency."*

21.2. Section 58 of PD 1445 provides the Audit of assets as follows:

> *The examination and audit of assets shall be performed with a view to ascertaining their existence, ownership, valuation and encumbrances as well as the propriety of items composing the respective asset accounts, determining their agreement with records; proving the accuracy of such records; ascertaining if the assets were utilized economically, efficiently and effectively; and evaluating the adequacy of controls over the accounts.*

21.3. Section 102 of PD 1445 – Primary and Secondary Responsibility states that:

> 1. *The Head of any agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency.*
>
> 2. *Persons entrusted with the possession or custody of the funds or property under the agency head shall be immediately responsible to him, without prejudice to the liability of either party to the government.*

21.4. This is a reiteration of prior years' audit observation.

21.5. As reported in the CY 2020 AAR, the MWSS CO set aside funds for the issuance of the MWSS Angat Serial Bonds on December 12, 1989, which was being managed by the Bangko Sentral ng Pilipinas (BSP) and with maturity date of April 30, 2002. In the letter of the Bureau of the Treasury (BTr) dated May 20, 2003 to MWSS, the BTr informed that the subject fund was transferred by BSP to BTr on June 30, 1995.

21.6. In the BTr Statement of Account issued to MWSS, the balance of the Sinking Fund Reserve, as of April 30, 2003, is P27.814 million. Further, the BTr in its letter to MWSS dated September 12, 2003, stated that the balance of MWSS Angat Sinking Fund Reserve was credited to the MWSS Savings Account with the Philippine National Bank (PNB) MWSS Branch. Furthermore, a Credit Advice dated September 4, 2003 from PNB Treasury Operations Division, stated that the amount of P27.814 million was credited to the account of MWSS. On October 7, 2003, MWSS recognized in the books the said transaction for the subject fund through JEV No. 05-11-28010. We also noted that in CY 2004, MWSS recognized interest income amounting to P77,322.

21.7. In the CYs 2014 and 2015 AARs, we reported that in the PNB MWSS Branch confirmation replies, the bank disclosed that there were no MWSS Fund under their custody. Hence, we recommended that Management reconcile the discrepancies noted between the balances per book and the balances per bank, but there was no compliance by Management. According to the Finance Department, they already made communication with the BTr, however, they are still awaiting response. Hence, in order for us to validate the communication of MWSS with the BTr, we requested the copy of the said letter, however, to date, there was no compliance from them. In addition, it is informed that we requested the Management to send a confirmation request to BTr, PNB Head Office and PNB MWSS Branch for the details and status of the Angat Sinking Fund Reserve, however, to date, we have not received the signed confirmation letter.

21.8. **We recommended and Management agreed to require the Finance Department to prepare the reconciliation of the Angat Sinking Fund Reserve amounting to P29.510 million and submit the necessary supporting documents.**

Tax Compliance and Recognition

22. **Discrepancies totaling P8.523 million between the BIR returns for VAT withholding, expanded withholding tax, withholding on compensation, and final tax for CY 2021 and the year-end balances reported in the Due to BIR accounts affected the fair presentation of the Financial Statements and contrary to paragraph 27 of IPSAS 1.**

22.1. Analysis of last payment for the month of December 2021 for BIR withholding tax returns pertinent to expanded, compensation and final withholding tax that there is a noted difference of P8.523 million between the trial balance and the filed BIR Returns, as follows:

	Trial Balance	BIR Return	Variance
Final VAT/OPT Withholding	213,118	296,961	(83,843)
Withheld from Compensation	11,109,346	1,579,763	9,529,583
Withholding Tax at Source	(645,721)	277,960	(923,681)
Final Withholding Tax	1,184	0	1,184
Total	**10,677,927**	**2,154,684**	**8,523,243**

22.2. Inquiry with the Finance Department disclosed that the Due to BIR account as of December 31, 2021 should be the amount remitted to the BIR in January 2022. However, the Finance Department explained that the discrepancies noted pertain to the unreconciled amounts and errors in posting and there is difficulty in reconciliation due to the absence of documents.

22.3. **We recommended and Management agreed to require the Finance Department to:**

a. **Review and analyze the noted discrepancies amounting to P8.523 million and prepare the necessary adjusting entries, if warranted, to correct the discrepancies; and**

b. **Implement a detailed monitoring schedule showing the total withholding taxes and remittances made for each month.**

23. **Erroneous take up of Input VAT carryover in the Monthly and Quarterly VAT Returns resulting in underpayment of VAT for October and 4th Quarter of CY 2021 totaling P9.607 million which exposes MWSS to tax penalties and interests pursuant to National Internal Revenue Code (NIRC).**

23.1. Sections 248 and 249 of the NIRC stated as follows:

> *(A) There shall be imposed, in addition to the tax required to be paid, a penalty equivalent to twenty-five percent (25%) of the amount due, in the following cases:*
>
> *(1) Failure to file any return and pay the tax due thereon as required under the provisions of this Code or rules and regulations on the date prescribed; or*
> *(2) Unless otherwise authorized by the Commissioner, filing a return with an internal revenue officer other than those with whom the return is required to be filed; or*
> *(3) Failure to pay the deficiency tax within the time prescribed for its payment in the notice of assessment; or*
> *(4) Failure to pay the full or part of the amount of tax shown on any return required to be filed under the provisions of this Code or rules and regulations, or the full amount of tax due for which no return is required to be filed, on or before the date prescribed for its payment.*
>
> *xxx*
>
> *(A) In General.-There shall be assessed and collected on any unpaid amount of tax, interest at the rate of twenty percent (20%) per annum, or such higher rate as may be prescribed by rules and regulations, from the date prescribed for payment until the amount is fully paid.*

23.2. Summarizing the VAT returns, we noted the carry-over of the vat input made by the Management for the quarterly reports, as follows:

VAT Summary of BIR Return 2550 Monthly and Quarterly

Month	VAT Output (a)	VAT Input (b)	Input Tax Carry-Over (c)	Input Tax Allocable to exempt sales (d)	Total VAT Input (b + c – d)	VAT withheld on govt. (e)	VAT payable (Input Tax) [a – (b+c-d) -e]
Summary of Monthly Report							
January	1,534,753	2,025,306	12,834,835	22,293	14,837,848		(13,303,094)
February	543,312	11,480,131	13,303,094		24,783,225	5,179	(24,245,092)
March*	2,002,072	4,555,056	24,245,092	53,000	28,747,147	83,642	(26,828,717)
April	318,684	454,626	***24,245,092***		24,699,718		(24,381,034)
May	1,548,367	598,102	24,381,034	268,355	24,710,781		(23,162,414)
June*	1,783,503	1,385,638	23,162,414	971,868	23,576,184	12,947	(21,805,628)
July	3,449,535	7,995,606	***23,162,414***	181,900	30,976,120	75,130	(27,601,715)
August	191,212	944,769	27,601,715	906,809	27,639,676		(27,448,463)

Month	VAT Output (a)	VAT Input (b)	Input Tax Carry-Over (c)	Input Tax Allocable to exempt sales (d)	Total VAT Input (b + c – d)	VAT withheld on govt. (e)	VAT payable (Input Tax) [a – (b+c-d) -e]
September*	1,681,231	947,973	27,448,463	7,657,036	20,739,401	69,952	(19,128,121)
October	58,667,697	5,195,351	***27,448,463***	1,926,939	30,716,876	158,801	***27,792,021***
November	1,455,318	3,882,375	-	1,544,555	2,337,820	47,358	(929,861)
December*	(26,015,777)	391,578	929,861	1,583,028	(261,589)	45,333	(25,799,522)
	47,159,907	**39,856,511**	**228,762,477**	**15,115,783**	**253,503,207**	**498,342**	**(206,841,640)**
Summary of Quarterly Report							
1st Quarter	4,080,138	18,060,492	***24,245,092***	75,293	42,230,291	88,821	(38,238,975)
2nd Quarter	3,650,554	2,438,366	38,238,975	1,240,224	39,437,118	12,947	(35,799,510)
3rd Quarter	5,321,978	9,888,348	35,799,510	8,745,745	36,942,113	145,082	(31,765,217)
4th Quarter	34,107,237	9,469,305	48,146,980	5,054,522	52,561,763	251,492	(18,706,018)
Total	**47,159,907**	**39,856,511**	**146,430,557**	**15,115,784**	**171,171,285**	**498,342**	**(124,509,720)**

**Data on the line items for March, June, September and December were just squeezed since the actual VAT returns pertains to the Quarterly Filing.*

23.3. It was observed that the Input Tax carryover reported in the 1st Quarter filing of VAT return was P24.245 million instead of P12.835 million that was reported in the December 2020 VAT return. While for months of April, July and October 2021, the Input tax carryover reported pertains to the February, May and August, 2021, respectively, instead of the previous month's VAT returns. Because of these errors, the Net Input Tax on VAT return from March 2021 onwards are overstated resulting to underpayment of VAT payable on October and December 2021.

23.4. Recomputation was made using the correct/should be amount for CY 2021 and it showed that the VAT payable for October should have been P34.886 million instead of P27.792 million, thus an underpayment of P7.094 million, as follows:

Net VAT Payable for October Monthly VAT Declaration	27,792,021
Net VAT Payable per recomputation	34,885,524
Under payment for October 2021	**7,093,503**

23.5. Management confirmed that there was an error in the October 2021 VAT return. Nevertheless, they explained that adjustments were made in the 4th quarter VAT return to correct the errors that occurred.

23.6. However, recomputation for the 4th Quarter VAT Return revealed that the Net VAT payable should have been f P2.513 million, as follows:

4^{th} Quarter Net VAT Payable	37,398,886
Less: Monthly VAT Payment – previous two months	(34,885,524)
Should be Net Amount Payable	**2,513,362**

23.7. The 4th quarter VAT return reported an input tax carry over of P18.706 million, thus, we noted an additional error for the amount of P2.513 million. As per inquiry with the Finance Department, they commented that the reason for the discrepancies in the 4th quarter filing was to reconcile the errors made in the previous quarters. Thus, the total errors noted on the VAT Returns for CY 2021 amounted to P9.607 million, as follows:

Underpayment from October VAT Returns	7,093,503
Underpayment from 4th Quarter VAT Returns	2,513,362
Total	**P 9,606,865**

23.8. **We recommended that Management require the Finance Department to:**

a. **Prepare the necessary adjustments to correct the balances of VAT return for CY 2021 to be properly carried over to CY 2022; and**

b. **Amend the return if warranted, to provide the accurate VAT payments for CY 2021 and succeeding years.**

23.9. Management commented that such deficiency is due to the portion from the receipt of Angat Hydro Corporation (AHC) which shall be recognized as revenue for CY 2024 amounting to P248.125 million with a corresponding VAT Output of P29.775 million. These annual operation fees covering August 2024 to July 2026 were already included in the VAT returns in the first quarter of CY 2022. Management added that the noted discrepancies will be reconciled accordingly and appropriate adjustments will be made.

23.10. It is informed that the underpayment was due to the error in the reported Input VAT carry-over and it does not pertain to the declared Output VAT.

24. **Dormant and abnormal items in the Due to BIR account amounting to P0.560 million and P376,254, respectively, affected the fair presentation of the Financial Statements contrary to paragraph 27 of IPSAS 1.**

24.1. Audit of the Due to BIR account also disclosed that there were dormant and abnormal balances that remained stagnant for several years, as follows:

Dormant Accounts	Amount
Income Tax Withheld from Salaries - Other Compensation	281,613
Professional Tax	277,102
Subsidiary Ledger account 1	556
Subsidiary Ledger account 2	493
Total	**559,764**

Accounts with Abnormal Balance	Amount
Income Tax Withheld from Salaries - Other Compensation	(126,552)
Professional Tax	(169,733)
VAT Withheld	(79,969)
Total	**(376,254)**

24.2. According to the Finance Department, they were not able to reconcile and close the outstanding balances due to the absence of supporting documents necessary for the determination of each settlement.

24.3. **We recommended and Management agreed to require the Finance Department to make reconciliation on the dormant and abnormal accounts, and take up necessary adjustments, if warranted, to correct the Due to BIR account.**

OGCC Reimbursable Allowances

25. **Payment of monthly reimbursable allowances totaling P3.600 million for CYs 2021 and 2018 to the Office of the Government Corporate Counsel (OGCC) without the required receipts and/or other documents evidencing disbursements resulted in unsubstantiated expenses and contrary to Section 4 of PD 1445.**

25.1. Section 4 (6) of Presidential Decree No. 1445 provides that the ***claims against government funds shall be supported with complete documentation.*** *(emphasis supplied)*

25.2. Section 7.3.1 of COA Circular No. 2009-006 provides that ***the Auditor shall enforce submission of the receipt and disbursement records with all paid vouchers, official receipts, reports and supporting documents as prescribed by the Commission*** and the related laws, rules and regulations, and as necessary in the course of audit. *(emphasis supplied)*

25.3. COA Circular No. 2012-001 provides that the documentary requirements for common government transactions claims against government funds shall be supported with complete documentation. In addition, the subject Circular stated that ***the general requirements for all types of disbursement should provide sufficient and relevant documents to establish validity of claims.*** *(emphasis supplied)*

25.4. On December 13, 2018, the MWSS Board of Trustees issued Board Resolution No. 2018-203-CO for the approval of the signing of a new Memorandum of Agreement (MOA) between MWSS and the OGCC to formalize the reconstituted OGCC Legal Team assigned to MWSS. A Memorandum of Agreement was executed by and between the OGCC and MWSS on December 14, 2018. Section 2 thereof, provides that:

> *For services rendered, the MWSS shall extend monthly reimbursable allowances to the OGCC Team, in the total of Php 150,000.00 to be payable to the OGCC for the benefit of the assigned OGCC lawyers and subject to government accounting and auditing rules and regulations.*

25.5. In our examination of the Disbursement Vouchers (DVs) and Journal Entry Vouchers (JEVs), we noted the following payments made to the OGCC:

Date of Check	Payee	Check Amount
February 13, 2019	Office of the Government Corporate Counsel	1,800,000
April 1, 2022	Office of the Government Corporate Counsel	1,800,000
Total		**3,600,000**

25.6. However, we noted that there were no receipts and other supporting documents evidencing valid claims that will serve as basis for the grant of reimbursable allowances to the OGCC lawyers. Records show that the only documents attached to the DVs are (1) the OGCC billing, (2) Memorandum of Agreement (MOA) and (3) MWSS Board Resolution approving the MOA. Instead, individual "certifications" were submitted on account of each lawyer as basis for the claim of the reimbursable allowances for the legal services rendered. Review of these certifications disclosed that it referred only to the fact that the amount claimed by the individual lawyer represents the special legal services rendered to the MWSS. The certifications were signed by the individual lawyer who will claim the reimbursable allowances; thus, these are self-serving documents as the same were issued by them.

25.7. The mere certification submitted by the OGCC will not suffice to support a claim for reimbursable allowances, because it is not a document evidencing disbursement under COA Circular No. 2006-001. Mere general statements that the certified amount was used as allowance or in this case, a statement that the amount claimed by the OGCC represents reimbursable allowance for the legal services performed are inadequate and cannot be allowed as evidence of disbursement.

25.8. To be admitted as sufficient evidence of payment, the certification presented by the OGCC must establish "the paying out of an account payable," or a disbursement. *The Finance Department should submit the corresponding receipts as evidence of the actual and valid disbursements of the OGCC, in order to support the disbursements made for the reimbursable allowances.* A sweeping and general statement that expenditures were incurred by some officials within a certain month does not, in any way, satisfy the condition contemplated in the circular.

25.9. **We recommended and Management agreed to require the Finance Department to submit compliance with the substantiation requirement for the payment of the reimbursable allowances of the OGCC amounting to P3.600 million in the form of receipts and/or documents evidencing disbursements pursuant to Section 4 of PD 1445 in relation to COA Circular No. 2006-001 to preclude the issuance of Notice of Suspension.**

25.10. In response to the observation, the Management sent a letter to the OGCC for the compliance of the substantiation requirements under Section 4 of PD 1445 in relation to the payment of reimbursable allowances of the OGCC Team by requiring the latter to produce the receipts and/or documents evidencing disbursements. Management stated that they will submit the OGCC's compliance as soon as the MWSS receives the documents.

Gender and Development

26. **The CY 2021 MWSS Annual GAD Plan and Budget (GPB) of MWSS CO reported an incorrect amount of its CY 2021 DBM approved Corporate Operating Budget (COB) which resulted in the deficiency of the GPB amounting to P181.789 million and did not meet the minimum requirement of five per cent or P196.767 million**

and affected the accomplishment of the GAD objectives contrary to PCW-NEDA-DBM Joint Circular No. 2012-01.

26.1. Item 6.1 of PCW-NEDA-DBM Joint Circular No. 2012-01 states that:

> *At least five percent 5% of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency's maintenance and other operating expenses (MOOE), capital outlay (CO) and personal services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency's total budget appropriations.*

26.2. In our examination of the Annual GPB report, the indicated amount of MWSS CY 2021 Corporate Operating Budget (COB) is P299.558 million. However, the CY 2021 COB of MWSS, duly approved by the DBM, is P3.935 billion, thus, MWSS reflected an incorrect amount of its COB in the GPB Report submitted to PCW, or having a discrepancy of P3.636 billion, as follows:

	Amount
COB duly approved by DBM	3,935,332,000
COB per GPB Report	299,558,712
Discrepancy	**3,635,773,288**

26.3. In addition, the minimum requirement of GPB as prescribed by the Philippine Commission on Women (PCW) is at least five per cent of the total agency budget appropriation authorized under GAA, thus, the MWSS GPB should be at least P196.767 million, as follows:

	Amount
CY 2021 DBM approved COB	3,935,332,000
Required minimum percentage of GPB	5%
Required CY 2021 GPB	**196,766,600**

26.4. However, the noted discrepancy in the COB amounting to P3.636 billion resulted in the deficiency of the CY 2021 GPB of MWSS by P181.789 million, as follows:

	Amount
CY 2021 DBM approved COB	3,935,332,000
Required minimum percentage of GPB	5%
Required CY 2021 GPB	196,766,600
Submitted CY 2021 GPB	(14,977,936)
Deficiency	**181,788,664**

26.5. As per inquiry with the Finance Department, they commented that the basis for their GAD budget is the 5 percent of the MOOE in the COB and not the total amount of the DBM approved COB.

26.6. However, there was no provision in the PCW-NEDA-DBM Joint Circular No. 2012-01 that qualifies the minimum 5 percent requirement on whether it should come from

MOOE, CO or PS. It is stated that it should be at least 5 percent of the total agency budget appropriations.

26.7. **We recommended that Management direct the GAD Focal Point System (GFPS) to:**

a. **Submit justification on the CY 2021 COB reflected in the GPB of MWSS having a discrepancy amounting to P3.636 billion;**

b. **Submit justification on the noted deficiency of the GPB amounting to P181.789 million; and**

c. **Strictly allocate during the preparation of GPB the required minimum 5 percent of the total COB for the appropriation GAD Budget in compliance with Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01.**

26.8. MWSS GFPS clarified that only the MOOE is being used in the determination of the GPB. The reason was that all line items of the budget which are considered as “pass on” such as debt services, progress billings, including items which were not “pass on” such as foreign loans and budget allocated of contingent expenses are excluded in the computation of GPB. Further, they added that it has in fact sought the guidance of the PCW regarding this matter thru their letter dated June 3, 2022.

26.9. In the absence of a decision or resolution that explicitly qualifies the subject PCW-NEDA-DBM Joint Circular, we maintain our audit recommendations.

27. **The non-implementation of the GAD activities resulted in underutilized GAD Budget amounting to P14.467 million or 96.59 percent of the total GAD Budget contrary to RA 9710, thus, defeating the principles of the law to address discrimination and inequality in the economic, political, social and cultural life of women and men.**

In addition, the validity of the actual expenditures amounting to P402,562 was not established due to the non-submission of the related DVs and summary of expense pertaining to the actual expenditures on GAD activities for CY 2021 contrary to PD1445 and COA Circular 2012-001.

27.1. Chapter VI – Institutional Mechanisms of RA No. 9710 also known as the Magna Carta of Women provides that:

Section 36(a)

(a) Planning, budgeting, monitoring and evaluation for GAD. ***GAD programs addressing gender issues and concerns shall be designed and implemented based on the mandate of government agencies*** *xxx*

Section 43

The State shall prioritize allocation of all available resources to effectively fulfill its obligations specified under this act. *The State agencies' GAD budget, which shall be at least 5% of their total budgetary allocation, shall also be utilized for the programs and activities to implement this Act. (emphasis supplied)*

27.2. *Section 122 of PD 1445, provides for the authority of this Commission to cause the submission of reports:*

> *Whenever deemed necessary in the exigencies of the service, the Commission may under regulations issued by it require the agency heads, chief accountants, budget officers, cashiers, disbursing officers, administrative or personnel officers, and other responsible officials of the various agencies to submit trial balances, physical inventory reports, current plantilla of personnel, and such other reports as may be necessary for the exercise of its functions.*

27.3. COA Circular No. 2012-001 dated June 12, 2021 provides for the fundamental principles governing the financial transactions and operations of any government agency as follow:

> *xxx*
>
> *6. Claims against government fund should be supported with complete documentation.*

27.4. Review of the Accomplishment Report (AR) of GAD program for CY 2021 revealed that of the 21 GAD Activities, 2 were fully implemented, 1 was partially implemented and 18 were not implemented. Actual expenditures amounted to P0.510 million or equivalent to 3.41 per cent of the total budget, leaving an unexpended balance of P14.467 million.

27.5. As per the CY 2021 AR, the GAD Focal Point System commented that the big factor for the non-implementation of the projects is the pandemic, as they struggle to find speakers and was unable to proceed due to government restrictions and protocols. The Human Resource Department said that they conducted the seminars through webinar meetings. However, it can be observed that for several years, the GAD Program has always been not implemented fully, thus, defeating the very purpose of the Magna Carta of Women.

27.6. We requested Management to submit the summary of expenses relative to the AR for CY 2021 together with the related DVs for our verification and checking of these financial records. However, at present, the Management has not yet complied.

27.7. **We recommended that Management require the:**

a. GFPS to maximize the utilization of the funds through the implementation of GAD-related programs and projects which addresses gender and development issues;

b. **Heads of the Implementing Departments or Offices to ensure that GAD Programs, Activities and Projects (PAPs) are implemented as planned to attain the GAD objectives and regularly assess the gender-responsiveness of the MWSS' major programs and projects; and**

c. **Finance Department to immediately submit the DVs and supporting documents relative to the GAD expenditures.**

27.8. Management commented that all of the DVs relative to GAD were already transmitted. Verification however, revealed that only four DVs amounting to P107,622 out of P510,184 as reported in their GAD Accomplishment Report were submitted.

27.9. As a rejoinder, we maintain our position that the Finance Department to immediately submit the DVs amounting to P402,562. Meanwhile, for all other recommendations, the Management agreed to adhere and comply.

D. Other Audit Observations – Regulatory Office

Receivables

28. **Receivables from Disallowances/Charges with balance of P78.509 million as of December 31, 2021 was not supported with subsidiary ledgers, resulting to non-enforcement and non-recovery of receivables contrary to Section 7 of COA Circular No. 2009-006.**

28.1. Section 7 of COA Circular No. 2009-006 dated September 15, 2009 re: Rules and Regulations on Settlement of Accounts (RRSA) enumerates the responsibilities of agency heads and accountants:

> *7.1 **Responsibility of the Agency Head***
>
> *x x x*
>
> *7.1.3 **He shall enforce the COA Order of Execution (COE) by requiring the withholding of salaries or other compensation due the person liable in satisfaction of the disallowance** or charge.*
>
> *7.1.4 He shall ensure that all employees who are retiring or transferring to other agencies shall first settle the disallowances and charges for which they are liable.*
>
> *7.2 **Responsibility of the Agency Accountant***
> *x x x*
>
> *d) the disallowances and charges that have become final and executory as contained in the Notice of Finality of Decision (NFD) are recorded in the books of accounts; and*

e) ***the subsidiary ledgers/records are maintained and properly updated for each official/employee determined to be liable/responsible for the amount disallowed/charged/ suspended.*** *(emphasis supplied)*

28.2. This is a reiteration of prior years' observation.

28.3. In CY 2010, the then Supervising Auditor issued 48 NDs amounting to P82.242 million for the payment of allowances, bonuses, incentives and other benefits to the officials, employees, and members of the Board of Trustees of the MWSS-RO. On June 19, 2012, COA Corporate Government Sector Cluster-B issued Decision No. 2012-002, sustaining the subject Notices of Disallowance and on January 30, 2015, the COA Commission Proper issued Decision No. 2015-040, affirming the subject NDs amounting to P82.242 million.

28.4. On May 18, 2015, the MWSS RO filed for Motion for Reconsideration before the COA Commission Proper. On June 21, 2016, the Supreme Court of the Philippines through En Banc issued Resolution – Deny Motion to Admit and on July 26, 2016 issued Resolution (Entry of Judgment) for G.R. No. 224240, that the subject COA Decision was resolved as closed and terminated. On August 8, 2016, the Office of the Government Corporate Counsel (OGCC) filed Motion for Reconsideration before the Supreme Court of the Philippines and on August 23, 2016, the Supreme Court En Banc issued Entry of Judgement "MWSS vs COA" that in view of the resolution dated July 26, 2016 considering the case closed and terminated, the Court resolved to note without action the Motion for Reconsideration filed by the OGCC for MWSS RO.

28.5. Hence, on December 28, 2016, the Legal Services Sector, Office of the General Counsel, Commission on Audit issued the COA Order of Execution (COE) No. 2016-097 amounting to P78.509 million. On January 24, 2017, the Commission Secretariat of the Commission Proper Adjudication and Secretariat Support Services Sector (CPASSSS), Commission on Audit, issued the Notice of Finality of Decision (NFD) in the total amount of P82.242 million.

28.6. However, upon examination of the books of accounts, we noted that there were no collections made for the subject disallowances and it was likewise noted that several employees who were held as persons liable under the subject disallowances have already been separated from the Agency without the settlement of their accounts.

28.7. We also noted that despite our previous audit recommendations, the Accounting Section did not provide the required SLs for the proper monitoring of accounts of the persons liable. According to them, their inability to prepare subsidiary records and impose an amount to be collected from the persons liable was due to discrepancies in the amounts between the NFD and COE. The Management submitted a request to COA for the clarification, through the COA-MWSS, for the discrepancies totaling P3.733 million. However, the noted discrepancies were attributed only to three (3) NDs out of the 48 NDs. In our opinion, the Agency Accountant should at least provide the SLs of the 48 NDs amounting to P82.242 million and the Agency Head to immediately enforce the COE amounting to P78.509 million to all the persons liable, awaiting COAs clarification for the said discrepancy, as compliance with the COA's RRSA.

28.8. The 45 NDs with no discrepancies are separate and distinct from the three NDs with noted discrepancies, hence, these NDs should be immediately enforced to all the persons liable for proper settlement. However, after more than four years, no amount from any of the 48 final and executory NDs has been settled.

28.9. **We reiterated our recommendation that the Chief Regulator:**

a. **Require the Accounting Section to maintain the subsidiary records of the persons liable for the subject NFD amounting to P82.242 million;**

b. **Require the Accounting Section to make the necessary adjusting entries to correct the Receivable-Disallowances/Charges from P78.509 million to P82.242 million; and**

c. **Enforce the COE against the persons liable.**

28.10. The Accounting Section commented that they will analyze and reconcile the NDs with the issued NFD and the NDs in the issued COE No. 2016-097. Once reconciled, the Accounting Section will make the necessary adjusting entries to increase the Receivable-Disallowances/Charges from P78.509 million to P82.242 million. Lastly, the Management had already started to withhold the last claim or terminal pay of employees who retired/resigned from the office that is covered by COE No. 2016-097, and prepared the demand letters to be sent out to all persons liable.

Property, Plant and Equipment

29. **Insufficiencies in the Property Inventory Taking prevented the MWSS-RO from performing the One-Time Cleansing of PPE Account Balances set forth under COA Circular No. 2020-006.**

29.1. Sections 5.9, 5.10, and 5.11 of COA Circular No. 2020-006 dated January 31, 2020, prescribed for the One-Time Cleansing of PPE Account Balances of Government Agencies, provided that:

> *In coordination with the Property Division/Unit, the Inventory Committee shall plan/strategize on how to conduct and complete the physical inventory within the prescribed period. It shall prepare a Physical Inventory Plan (PIP) containing, at least, the specific assignments/duties of the Committee members, the cut-off date and a schedule specifying the dates and locations of the inventory taking activities from start up to the targeted completion of the physical inventory.*
>
> *The PIP shall be approved by the Head of the Agency.*
> *The Inventory committee shall submit the approved PIP to the COA Audit Team at least ten (10) calendar days before the scheduled start of the inventory taking activities.*

29.2. Management was not able to submit the CY 2021 Physical Inventory Report together with the approved PIP to our Office. We have also observed that the Inventory Count Form as of December 31, 2021 submitted to this Office on May 11, 2022 was only signed by the Head of the Inventory Committee, and lacked the required signature of the concerned committee member who conducted the count.

29.3. As per inquiry, the Inventory Count Committee recognizes the absence of their signature as well as their non-provision of a copy of the PIP. Moving forward, Management committed to provide a copy of the PIP which specifies the dates of the inventory count among others.

29.4. **We recommended that Management require the Property and Accounting Section to immediately submit the CY 2021 Physical Inventory Report, approved Property Inventory Plan and reconciliation with the accounting records.**

29.5. Management commented that the inventory taking is still ongoing and committed for the timely submission of the Property Inventory Report and Property Inventory Plan in the succeeding years.

Fund Transfers to Other Government Agency

30. **Grant of cash advances amounting to P8.784 million to UP National Engineering Center (UP-NEC) and Liquidation of the Cash Advances amounting to P3.961 million were not supported with the documents required under COA Circular No. 2012-001.**

30.1. Sections 3.1.1 and 3.1.3 of COA Circular 2012-001 dated June 14, 2012 enumerated the documentary requirements for the fund transfer and liquidation to Source Agencies, as follows:

3.1.1.

- *Copy of MOA/Trust Agreement*
- *Copy of Approved Program of Work (for infrastructure projects)*
- *Approved Project Expenditures or Estimated Expenses indicating the project objective and expected outputs (for other projects)*
- *For GOCCs, Board Resolution ratifying the MOA in case of transfers not incorporated in the Corporate Operating Budget and/or beyond the signing authority of the Agency Head*
- *x x x*
- *Certification by the Accountant that funds previously transferred to the Implementing Agency (IA) has been liquidated and accounted for in the books*
- *Copy of the OR issued by the IA to the Source Agency acknowledging receipt of funds transferred (for post-audited activities)*

xxx

3.1.3

- *Report of Checks Issued and Report of Disbursements certified correct by the Accountant,* ***approved by the Head of the IA, and duly audited by the Auditor of the IA***

30.2. On October 24, 2007, MWSS and the University of the Philippines entered in a Memorandum of Agreement (MOA) for UP-NEC to undertake the implementation of Phase II Years 3-5 of the Public Assessment of Water Services in favor of MWSS. The last paragraph of V. Terms of Payments provides as follows:

> ***UP DILIMAN shall periodically submit financial reports under a pre-approved MWSS format to the MWSS, which shall reflect the uses, among others, of the above funds as per the above schedules.*** *Upon completion of the PAWS-PHASE II, any savings from its total budget shall be refunded by UP DILIMAN to MWSS. (emphasis ours)*

30.3. In our examination of the general ledgers, we noted the following errors/deficiencies:

a. The liquidation of the *Advances to UP NEC account in November 2021* amounting to P3.961 million was only supported with Summary of Disbursements. It lacked the required certification of the Auditor of the IA.

b. Debits to the Advances to UP NEC account amounting to P8.784 million were not provided with copy of Official Receipts (ORs) issued by the Implementing Agency to the Source Agency, acknowledging receipts of funds transferred and other supporting documents as required by COA Circular No. 2012-001.

	Debits
Year 3 Beginning balances	2,293,918
Year 4	6,490,533
Total	**8,784,451**

30.4. As per inquiry with Management, they will coordinate with UP-NEC to obtain the necessary documents.

30.5. **We recommended that the Accounting Section immediately secure the required documents from UP-NEC to support the grant and liquidation of cash advances amounting to P8.784 million and P3.961 million, respectively.**

30.6. Management Commented that they will coordinate with UP-NEC and its auditor to obtain the credit notice, as well as to ensure that the disbursements made from the fund transfer were duly verified by the auditor of UP.

5th Rate Rebasing Exercises

31. **Technology and knowledge transfers as required by the 1st to 4th Rate Rebasing Exercises Consultancy Services Contracts and Section 4.4 of Annex B of the 2016 IRR of RA 9184 was not acquired as evidenced by the continuous hiring of almost the same number of consultants.**

31.1. Item 4.4 of Annex "B" of the 2016 IRR of the R.A. 9184, provides that technology and knowledge transfer to the procurement entity shall be required in the provision of consulting services, where applicable, as one of the general principles on hiring of consultants.

31.2. Also, the last paragraph of Item 6.6 of the same provides that technology and knowledge transfer should be considered an important objective in the provision of consulting services.

31.3. Article 9.2 of the Revised Concession Agreement between MWSS and its Concessionaires, Maynilad Water Services Inc. (MWSI) and Manila Water Company, Inc. (MWCI) provided for the Rate Adjustment function of the MWSS-RO, as follows:

> *The Standard Rates for water and sewerage services shall be adjusted each year effective January 1 of each Charging Year, in accordance with (I) the Rates Adjustment Limit forth in Section 9.2.1, and (II) the procedures set forth in Section 9.2.2. The Regulatory Office shall require justification for any increase in the Standard Rates for water and sewerage services.*
>
> *The Regulatory Office shall conduct a detailed review of the Concessionaire's operational performance and historical cash flows subject to applicable COA rules and regulations to:*
>
> *A. Determine whether agreed Service Obligation standards and targets have been met and whether the necessary penalties should be imposed if standards and targets have not been met;*
> *B. Verify and confirm the accuracy of declared revenues, and the accuracy, reasonableness, prudence and efficiency of declared Expenditures; and*
> *C. Determine necessary adjustments to the projections used in the prior period and Concessionaire's Opening Cash Position.*

31.4. As per MWSS-RO's functional chart, the Rate Rebasing Activities is under the Financial Audit and Assets Monitoring Department and Tariff Monitoring Department, as follows:

> *Monitors key economic indicators and occurrences relevant to the concessionaires' Appropriate Discount Rate (ADR) and rate adjustment proposals.*

31.5. In our examination of the account, Management allotted an amount of P72.658 million in the CY 2021 Corporate Operating Budget (COB) for the Consultancy services intended for the 5th Rate Rebasing Exercises. However, we noted that the composition of the team of the present consultants is almost exactly the same with the 4th Rate

Rebasing Exercises and the functions of the consultants in the most recent 5th Rate Rebasing Contract are similar with the key personnel of MWSS-RO.

31.6. Further, the Scope of Work of the 4th Rate Rebasing Contract includes, among others:

> *q. Conduct presentations, trainings, and workshops for the RO, in line with the technology transfer aspect of the Consultancy, as supplement to the required reports.*

31.7. The following reports were also available as output in the previous consultancy contracts for the rate rebasing exercises, wherein, ***the provision for the knowledge transfer was stated in the contracts:***

Description	Consultant	Date	Amount	Provision for Knowledge Transfer
3rd Rate Rebasing	Consultant A	March 1, 2013	P61,397,388.00	Rate Rebasing Consultancy Framework xxx D. Other Rate Rebasing Activities Discussion with different RO units to enhance Technology Transfer The consultants shall update and discuss with the RO the various methodologies adopted by the Consultants with the objective of enhancing the latter's capacity, knowledge and skills. xxx (p.54 of the 3rd Rate Rebasing Contract)
4th Rate Rebasing	Consultant B	September 28, 2017	64,555,904.00	Terms of Reference xxx 3. Scope of Work xxx q. Conduct presentations, trainings, and workshops for

Description	Consultant	Date	Amount	Provision for Knowledge Transfer
				the RO, **in line with the technology transfer aspect of the Consultancy,** as supplement to the required reports below xxx (p.43 of the 4th Rate Rebasing Contract)

31.8. In view of the previous rate rebasing reports, it is expected that the agency should have been able to utilize the outputs and apply them to their current operation and avoid, or at least, minimize the scope of work of the current consultants. Per inquiry, Management disclosed that the hiring of consultancy services for the 5th rate rebasing is necessary since consultants often have extensive experience and knowledge about their chosen industries. By engaging consultants, MWSS-RO will be able to gain from contractors who are industry experts in addition to its own specific experts on the Concession Agreement.

31.9. We agree that the hiring of consultants is necessary, however, the continuous hiring of consultants for every rate rebasing period defeats the purpose of requiring the consultants to provide the technology and knowledge transfer.

31.10. **We recommended that the Financial Regulation Area and Technical Regulation Area to identify the MWSS RO personnel who shall acquire the technology and knowledge transfer, and who shall be responsible in the conduct of subsequent Rate Rebasing exercises.**

31.11. Management commented that there was a significant movement among their employees due to the retirement and separation of several employees from the Financial and Technical Regulation Areas who are familiar with the Rate Rebasing procedures, however, Management committed to train their newly hired employees so that MWSS RO shall be able to perform the rate rebasing exercises with only minimal assistance from consultants.

E. Compliance with Tax Laws

32. For MWSS CO, the taxes withheld from January to November 2021 totaling P49.201 million were remitted in CY 2021 and the taxes withheld in December 2021 amounting to P2.155 million was remitted in January 2022. While the Annual Tax payment for the CY 2021 amounting P17.192 million was timely filed through the BIR Electronic Filing and Payment System (eFPS) on April 12, 2022.

32.1. However, discrepancies totaling P8.523 million between the BIR returns for VAT withholding, expanded withholding tax, withholding on compensation, and final tax for CY 2021 and year-end balances were noted in our audit of the Due to BIR accounts.

32.2. Further, we also noted erroneous take up of Input VAT carryover in the Monthly and Quarterly VAT Returns resulting in the underpayment of VAT for October 2021 and 4th Quarter of CY 2021 totaling P9.607 million.

32.3. For MWSS RO, taxes withheld from January to November 2021 totaling P9.519 million were remitted in CY 2021 while income taxes withheld in December 2021 amounting to P471,794 was remitted on January 6, 2022. However, there were unremitted taxes that remained dormant amounting to P36,947.

F. Compliance with Rules on the Government Mandatory Deductions

33.1. For MWSS CO, the amounts of P13.304 million, P1.000 million and P1.258 million withheld from employees for their GSIS, Pag-IBIG, and PhilHealth contributions, respectively, from January to November 2021 were all remitted in the CY 2021, while the amounts withheld for December 2021 GSIS, Pag-IBIG, and PhilHealth contributions amounting to P1.963 million, P24,500 and P154,058, respectively, were remitted in January 2022. However, a discrepancy of P498,280 was noted between the Financial Statements and the actual amount withheld/remitted by MWSS CO to the government institutions.

33.2. For MWSS RO, the amounts of P10.982 million, P0.588 million, and P1.091 million withheld from employees for their GSIS, Pag-IBIG, and PhilHealth contributions, respectively, from January to November 2021 were all remitted in CY 2021, while the December 2021 GSIS, Pag-IBIG, and PhilHealth contributions amounting to P1.003 million, P44,650 and P101,437, respectively, were remitted on January 21, 2022. However, there were unremitted balances that remained dormant amounting to P1,548, P5,557, and P2,565 due to GSIS, Pag-IBIG, and PhilHealth, respectively.

G. Status of Audit Suspensions, Disallowances and Charges

As of December 31, 2021, although there were no unsettled suspensions nor charges, the total unsettled disallowances of MWSS CO and MWSS RO amounted to P359.968 million and P246.704 million, respectively.

A summary of audit disallowances issued for transactions ending December 31, 2021 is shown below:

Audit Action	Beginning Balance January 1, 2021	Issued	Settled	Ending Balance December 31, 2021
MWSS – Corporate Office				
Suspensions	0	0	0	0
Disallowances	359,967,930	0	0	359,967,930
Charges	0	0	0	0
Sub-total	**359,967,930**	**0**	**0**	**359,967,930**
MWSS – Regulatory Office				
Suspensions	0	0	0	0
Disallowances	246,704,048	0	0	246,704,048
Charges	0	0	0	0
Sub-total	**246,704,048**	**0**	**0**	**246,704,048**
Grand Total	**606,671,978**			**606,671,978**

Details showing the status of audit disallowances for transactions of the MWSS CO and MWSS RO are presented in Annex 1 of this report.