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

June 30, 2014

Mr. GERARDO A.I. ESQUIVEL
Administrator
MWSS - Corporate Office
Balara, Quezon City

Dear Mr. Esquivel:

Pursuant to Section 2, Article IX-D of the Philippines Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and the transactions of the Metropolitan Waterworks and Sewerage System for the year ended December 31, 2013.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor expressed a qualified opinion on the fairness of the presentation of the financial statements of the Corporation because:

1. The carrying value of the Property, Plant and Equipment (PPE) at P35.408 billion was not correctly stated due to non-conduct of revaluation/appraisal since CY 1995.

2. The balance of the Land account in the amount of P12.444 billion was not fairly stated mainly due to:

    a. Land with an area of 92.61 hectares, titled under MWSS name, was not recorded in the books; and

    b. Transfer Certificate of Titles (TCT) of 128 lots with an area of 194.91 hectares were not found during the actual inventory of land titles which were recorded in the books but were not included in the inventory list of TCTs.

    c. The dropping from the books of accounts of land with carrying value of P89.725 million was not effected because of the discrepancy in land area by 29.573 million square meters between the accounting records and TCT No. 36069, with the area per accounting records higher than the area per land title. Likewise, a difference of 2,594.40 square meters was noted between the area in the remaining lots per land title and the area per inventory after the sale of the lots.

3. The year-end balance of *Construction-in-Progress* account at P6.401 billion was not correctly stated in view of the written information from the Deputy Administrator for Engineering & Operations that MWSS had no on-going construction projects as of the end of CY 2013.

4. Reciprocal accounts between MWSS Corporate Office and MWSS Regulatory Office in the amount of P1.689 billion and P749.296 million respectively, remained unreconciled with a difference of P940.177 million due to unsettled issues on sharing of concession fees and expenses, resulting in the non-elimination of the reciprocal accounts at the end of the year.

5. The accuracy and validity of the Loans Payable-Domestic account with outstanding balance of P714.741 million was not established due to unreconciled variance between the MWSS books of accounts and the confirmed balance from the Bureau of Treasury with the latter higher by P532.778 million.

6. The validity of the Payables' aggregated balance of P515.678 million was found doubtful due to the inclusion of:

   a. Accounts totaling P181.548 million outstanding for more than two years;
   b. Undocumented Accounts totalling P32.180 million; and
   c. Accounts with abnormal or debit balance of P3.281 million.

In addition to the above observations considered in the rendition of the auditor's opinion, we invite your attention to the following significant observations and recommendations that need immediate action as well:

1. The Cash and cash equivalents in the amount of P2.149 billion was not sufficient to cover the Loans Payable to the Bureau of Treasury (BTr), which have been collected from the concessionaires and all recognized Trust Accounts, totalling P2.583 billion at the end of the year. This is indicative that the funds for remittance to the BTr and the funds intended for specific purposes were used for other purposes.

   We recommended and Management agreed to efficiently monitor its cash flows to ensure that funds are disbursed solely for the intended purposes and strictly adhere to the provision of Section 6 of the GAA FY 2013.

2. The collections from the two concessionaires for the payment of foreign loans from CYs 2005 to 2013 in the total amount of P1.863 billion were not remitted to the Bureau of Treasury due to the unresolved issue on whether the loan was equity of the government or will remain as a loan since the concessionaires continued the implementation of the project.

   Considering that the Bureau of Treasury has billed MWSS for the loan obligation, we reiterated our previous year recommendation that Management remit immediately to the Bureau of the Treasury all collections from the two concessionaires for the JBIC and SPIAL.

3. At year-end, 42 General Ledger accounts with net amount of P362.735 million remained unreconciled with the Subsidiary Ledger and unverified for lack of supporting documents.

We reiterated our previous recommendation that Management facilitate the immediate reconciliation cited above pursuant to the provisions of IAS 1 in order that their financial statements will be able to provide the financial users the accurate information about the Agency's financial position, financial performance and cash flows.

4. The Pinugay Sewerage Treatment Plant (STP) project was not completed/utilized but MWSS had paid mobilization fees of P70.989 million to the contractor and still has to pay the ADB Loan 1746 Phi for the project which as of December 31, 2013 amounted to P196.176 million.

   In addition, the concessionaire, Manila Water Company Inc, (MWCI) assumed the obligation of MWSS to pay the amount of P375.000 million for the progress billings claimed by the contractor. As a passed-on cost, the amount was included in the rate rebasing computation, as stated in the Project Continuity Agreement, which added amount yielded a higher water rate for the consumers who did not even benefit from the project. Likewise, MWCI did not complete the project as required in the Project Continuity Agreement which according to MWCI was due to supervening events that prompted them to revisit and review the timing and implementation of the project.

   We recommended that Management provide alternative courses of action to be undertaken by MWSS on the failure of MWCI to complete the project considering further that the public did not benefit from the project yet made to assume its cost.

5. Various parcels of Land with total acquisition value of P143.222 million remained idle as of December 31, 2013 and have not been serving the purposes for which they were acquired in previous years.

   Considering the land's acquisition dates and their original intended purposes, we recommended that Management identify alternative and other appropriate uses of these properties for the purpose of optimizing their values and/or to at least recover the amount invested by MWSS.

   We likewise recommended that MWSS make a documentary inventory of the lands to confirm and validate the Transfer Certificates of Title establishing the required government land registrations and MWSS ownership over the above mentioned properties.

The other audit observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 16, 2014 are discussed in detail in Parts II and III of the report.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:

RUFINA S. LAQUINDANUM
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budge and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

June 30, 2014

Atty. Emmanuel L. Caparas
Acting Chief Regulator
MWSS – Regulatory Office
Balara, Quezon City

Dear Atty. Caparas,

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    a. Accounts totaling P181.548 million outstanding for more than two years;
    b. Undocumented Accounts totalling P32.180 million; and
    c. Accounts with abnormal or debit balance of P3.281 million.

In addition to the above observations considered in the rendition of the auditor's opinion, we invite your attention to the following significant observations and recommendations that need immediate action as well:

1. The consultant's final report and other deliverables in the consultancy services contract for the MWSS Regulatory Office 2013 Rate Rebasing in the total amount of P61.397 million contracted by MWSS Regulatory Office (RO) and Isla Lipana & Co. Joint Venture with Lahmeyer IDP Consultant, Inc. was not submitted within the six-month contract period reckoned from the receipt of the Notice to Proceed to the Consultant due to the request of the Regulatory Office for the consultant to do further evaluation of the items that were raised/disputed in the arbitration.

    We recommended that in future similar consultancy contract, Management, in determining timetables for deliverables or project completion should, in the procurement planning stage, set a realistic and reasonable timeframe for completion to avoid the occurrence of delay in the submission /completion of the deliverables.

2. The Property, Plant and Equipment (PPE) accounts exclusive of land, with net book value of P22.907 billion as at year-end were not reasonably valued due to:

a. Items with acquisition cost below P10,000.00 are included in the PPE accounts with corresponding accumulated depreciation, contrary to COA Circular No. 1997-005;

b. Depreciation for IT equipment costing P115.45 million was computed based on useful life of 20 years instead of 5 years required under COA Circular 2003-007; the Physical Inventory Report and the accounting records showed unreconciled difference of P29 million, with the amount per books of accounts more than the value of the assets in the inventory report; and unserviceable assets valued at P13 million were included in the PPE account and not transferred to Other Assets; and

c. The Physical Inventory Report was not reconciled with accounting records and was not signed by the committee-in-charge of the inventory taking and approved by the Acting Chief Regulator.

We recommended and Management agreed to require the Accounting Division to:

a. Recompute the depreciation of the IT equipment based on the 5-year estimated useful life in accordance with COA Circular 2003-007; and prepare necessary adjusting entries thereafter;

b. Reclassify to Other Assets account the unserviceable equipment pending sale, disposition or condemnation;

c. Require the Inventory Committee to sign the inventory report and have it approved by the Acting Chief Regulator; thereafter, require the Finance & Administrative Division to reconcile the physical inventory report with the accounting records.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 16, 2014 are discussed in detail in Part II of the report.

We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed of the actions(s) taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days upon receipt hereof.

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

Very truly yours,

COMMISSION ON AUDIT

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RUFINA S. LAQUINDANUM
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