

EXECUTIVE SUMMARY

A. Introduction

1. Republic Act (R.A.) 6234 dated June 19, 1971 created Metropolitan Waterworks and Sewerage System (MWSS) to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes at just and equitable rates. Based on its original Charter, MWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Metro Manila, the entire province of Rizal and a portion of Cavite. R.A. 8041 or the National Water Crisis Act of 1995 and implemented by Executive Order No. 286 on December 6, 1995 and Executive Order No. 311 in March 20, 1996 allowed MWSS to enter into arrangements that will result in the involvement or participation of the private sector in any or all of the segments, operations and/or facilities of the MWSS.
2. On 21 February 1997, MWSS was privatized through the Concession Agreement entered into with Manila Water Company, Inc. (East Zone) and Maynilad Water Services, Inc. (West Zone).
3. The audit was conducted to determine the (a) level of assurance that may be placed on the management's assertions on the financial statements; (b) the propriety of transactions as well compliance with existing rules and regulation as well as management's policies; and (c) the extent of the implementation of prior years' audit recommendations. A value-for-money audit was also conducted on the utilization of projects funded from foreign loans.
4. The audit covered the operation and accounts of the MWSS for CY 2013 and was conducted in accordance with the Philippine Standards on Auditing.

B. Financial Highlights

Comparative Financial Position (In Million Pesos)

	2013	2012	Increase (Decrease)
Assets	53.809	54.077	(0.268)
Liabilities	17.092	17.363	(0.271)
Equity	36.717	36.714	0.003

Comparative Results of Operations (In Million Pesos)

	2013	2012	Increase (Decrease)
Income	2.480	2.720	(0.240)
Expenses	1.807	2.132	(0.325)
Net Profit from Operations	0.673	0.588	0.085
Gain (Loss) on Foreign Exchange	(0.243)	1.358	(1.601)
Net Profit	0.430	1.946	(1.516)

MWSS paid dividend of P300 million on June 3, 2013 to the Bureau of Treasury pertaining to the balance of CY 2011 dividend and partial payment for CY 2012. Generated net profit from operation (before other income/expenses) of P673 million which is higher by P85 million or 14.33% than the previous year.

C. Operational Highlights

MWSS continued its pursuit of its strategic vision, the Water Security Legacy Program (WSP). The Water Security Legacy Program crafted in 2011 is presently the backbone of the major initiatives and programs of MWSS. The status of major initiatives and projects are listed below:

Water Security Legacy 1: Water Resources and Infrastructure Development, Management and Protection			
Project	Cost/Funding	Accomplishments	Benefit
New Centennial Water Source Project (NCWSP) – Kaliwa Dam	P18.70 Billion Public Private Partnership Project	Secured NEDA Board Approval 29 May 2014; Investor's Forum was held June 10, 2014 to formally introduce to potential bidders. Target publication of Pre-Qualification Documents: June 2014	The NCSWP-Kaliwa Dam will initially provide 600 MLD of raw water to Metro Manila. Increase the service obligations in their respective areas.
Bulacan Bulk Water Supply Project (BBSWSP)	P24.435 Billion Public Private Partnership Project	Approved by NEDA Board on 21 November 2013; Investor's Forum was held June 10, 2014 to formally introduce to potential bidders; Target publication of Pre-Qualification Documents: June 2014	Improved access to potable water in the Province of Bulacan Improved level of water supply service in terms of water quality, supply hours and reliability.
Rehabilitation, Operation And Maintenance (Rom) Of Mwss-Owned Auxiliary Turbines Nos. 4 & 5	P1.16 Billion Public Private Partnership Project	Approved by NEDA Board on November 29, 2012; Secured OGCC Opinion that MWSS may negotiate with K Water; Target Financial Closing of contract with PSALM on July 25, 2014.	Increase revenue
Water Security Legacy 2: Water Distribution Efficiency			
Angat Water Transmission	P5.77 Billion	Completed Feasibility Study in August 2013	Rehabilitation of conveyance

Improvement Project (AWTIP) formerly Angat Water Utilization and Aqueduct Improvement Project (AWUIAP) Phase 3	ADB loan	Secured NEDA Board approval on May 29, 2014; Investor's Forum last June 10, 2014 was held. Target publication of documents on August 2014	tunnels and aqueducts will ensure continuous water supply mainly to Metro Manila and the Province of Bulacan
Angat Water Utilization And Aqueduct Improvement Project – Phase 2 (Awuaip Phase 2)	P 5.70 billion Concession Project	Project closed-out on September 30, 2013, completed eight months ahead of schedule	Construction of the aqueduct ensures continuous water supply mainly to Metro Manila

D. Auditor's Opinion

The Auditor rendered a Qualified Opinion on the fairness of presentation of the financial statements of MWSS for the year ended December 31, 2013 for the following reasons:

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, which the Audit Team had validated, 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.

1. Summary of Significant Audit Observations and Recommendations

Below is a summary of more significant audit observations and recommendation which are discussed in detail in Part II A of the Report.

Current Year's Audit Observations and Recommendations

MWSS Corporate Office

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. Accounts Receivable from the Concessionaire – MWSI totalling US\$55 million or P2.200 billion based on current dollar rate, representing the disputed claim between MWSS and MWSI arising from MWSI's refusal to pay for the additional COB incurred by the MWSS, remained uncollected.

Had the amount been collected, the loan could have been avoided and payments totalling P1.164 billion as of December 31, 2013 could have been used for the improvements of the Retained Assets of MWSS.

We recommended that Management take immediate legal action to settle the dispute and demand for the payment of the disputed claim equivalent to \$55M or P2.2B from MWSI.

MWSS Regulatory Office (RO)

3. 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.

4. Deficiencies were noted in the consultancy contracts for the following purposes:
 - a. In the Consultancy services for the 2013 Rate Rebasing in the amount of P61.597 million, changes in key personnel were not in accordance with the General Conditions/Special Conditions of the contract and Section 33.6 of IRR of RA 9184 ; and
 - b. In the contract for the Review and Validation of the Concessionaires' Asset Condition Report (ACR) with a contract cost of P21.028 million, the validity of the claim for reimbursable costs was questionable due to (i) issues raised on the rental of vehicles claimed to have been used for the project and (ii) the purchase of laptops and cameras for the project were not warranted.

We recommended that Management (i) investigate to confirm and determine the propriety of allowing the payment of the reimbursable cost in view of the findings in our audit regarding questionable issues raised on the rental of service vehicles which were claimed to have been used for the implementation of the contract; and (ii) justify payment of the reimbursable costs for the purchase of eight (8) laptops and six (6) digital cameras in consideration of the duration for their utilization in the implementation of the contract.

In future biddings, require the project proponent to include in the computation of reimbursable costs the justification for the rental or acquisition of the equipment and the proposed utilization schedule of the desired equipment as required in Volume 4 of the Manual of Procedures for the procurement of Consulting Services.

Common to MWSS CO and MWSS RO

5. The validity of the Payables' aggregated balance of P515.678 million was found doubtful due to the inclusion of: (i) accounts totaling P181.55 million outstanding for more than two years; (ii) undocumented Accounts totalling P32.180 million; and (iii) accounts with abnormal or debit balance of P3.281 million.

We recommended and the Management of both the CO and RO agreed to (i) review the payable accounts to determine their validity and completeness; thereafter, revert to the Retained Earnings account all undocumented payables which have been outstanding for more than two years provided under Section 98 of PD 1445; (ii) analyze the Due to Officers & Employees - Payroll account to determine the reason for the abnormal account balance and make the necessary adjustments; and (iii) require the submission of receipts/billings/invoices to support the obligation of expenditures; and in case of obligation of terminal leave benefits, ensure that there is a Board Resolution approving the accrual of earned leaves of employees

Reiteration of Prior Years' Audit Observations and Recommendations

MWSS Corporate Office

6. 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 obligations, 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.

7. Of the four individual loan accounts with foreign and local lending banks under the Bonds/Loans Payable accounts with year-end balance of P11.993 billion, two loans accounts posted variance against the confirmed balances of the foreign lending institutions with the latter higher by P112.488 million. The reconciliation between MWSS records and the records of the foreign and local lending banks have not been strongly pursued.

We reiterated our prior years' recommendation and Management agreed to require the Finance Department to reconcile the discrepancies in the Loans Payable account in order to arrive at the correct balances of the account at year-end.

8. 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.

Value for Money Audit – Corporate Office

9. 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 and yet made to assume its cost.

10. 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.

2. Summary of Total Suspensions, Disallowances and Charges issued

Total Disallowances issued that are still on appeal	MWSS Corporate Office	MWSS Regulatory Office
	226,418,688.54	117,426,465.90

3. Status of Implementation of Prior Years' Audit Recommendations

Out of the 57 audit recommendations embodied in prior year's Annual Audit Report, 24 were implemented, seven were partially implemented and 26 were not implemented. Of the 26 audit recommendations not implemented, 24 were reiterated in Part II of this Report. Details were presented in the Status of Implementation of Prior Year's Audit Recommendations under Part III.