AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit – Corporate Office

Service Concession Assets/Deferred Service Concession Revenue

1. The Service Concession Assets (SCA) and Deferred Service Concession Revenue with carrying amounts of P157.852 billion and P156.884 billion, respectively, as at December 31, 2020 are not supported with details and supporting documents, and the 2019 financial statements are materially misstated due to non-restatement of the opening balances of net assets/equity accounts which adversely affected the faithful representation of the said accounts in the financial statements for 2020 and 2019, contrary to International Public Sector Accounting Standards (IPSASs) 1, 3 and 32.

1.1. 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.*

1.2. Paragraphs 24 and 27 of IPSAS 3 – Accounting Policies, Changes in Accounting Estimates, and Errors provides that:

> *24. Subject to paragraph 28:*
>
> *(a) An entity shall account for a change in accounting policy resulting from the initial application of an IPSAS in accordance with the specific transitional provisions, if any, in that Standard; and*
>
> *(b) When an entity changes an accounting policy upon initial application of an IPSAS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.*
>
> *27. Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance with paragraph 24(a) and (b), the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented and other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.*

1.3. Paragraph 9 of IPSAS 32 – Service Concession Arrangements: Grantor provide the criteria for the recognition and measurement of service concession asset. It states that 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:

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

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.

1.4. In the CY 2019 Annual Audit Report, we observed the non-recognition of the assets and upgrades to the Service Concession Assets totaling P156.884 billion and we recommended that Management account for the service concession assets provided by the Concessionaires and the subsequent costs incurred for the upgrade of all service concession assets, and recognize the same in the MWSS books under the cost model.

1.5. In compliance with the said recommendations, the Management in CY 2020 recognized the Service Concession Assets amounting to P194.872 billion and Accumulated Depreciation amounting to P37.020 billion, as follows:

Service Concession Asset	Gross Amount	Accumulated Depreciation	Net Book Value
Sewer Systems	P 23,716,603,818.00	P 4,149,368,389.00	P 19,567,235,429.00
Water Supply Systems	110,334,357,414.00	31,095,727,956.00	79,238,629,458.00
Buildings and Other Structures	6,414,024,485.00	1,775,237,458.00	4,638,787,027.00
Service Concession-Land	4,261,617,195.19	-	4,261,617,195.19
Other Service Concession Assets	50,145,537,434.00	-	50,145,537,434.00
Total	**P 194,872,140,346.19**	**P 37,020,333,803.00**	**P 157,851,806,543.19**

1.6. Also, the related liability thru the Deferred Service Concession Revenue account was recognized amounting to P156.884 billion.

1.7. However, instead of restating the opening balances of the prior periods presented, MWSS erroneously recognized the SCA and the Deferred Service Concession Revenue in CY 2020 which has an adverse impact on the comparability of the financial statements.

1.8. In the CY 2018 Annual Audit Report of MWSS, it was provided in its *Statement of Compliance and Basis of Preparation of Financial Statements* that the consolidated financial statements have been prepared in compliance with the Philippine Public Sector Accounting Standards (PPSAS) prescribed by the Commission on Audit through COA Resolution No. 2014-003 dated January 24, 2014. This was the first-time adoption by MWSS of the IPSAS, since MWSS is adopting PFRS prior to 2018.

1.9. To validate the accounting entries taken up in 2020, the audit team requested in writing the following pertinent reports and documents however, these were not submitted by Management.

- a. *Confirmed detailed balances of the Service Concession Assets in the books of the concessionaires as of December 31, 2020;*
- b. *Annual Reports of the Manila Water Company, Inc. (MWCI) and Maynilad Water Services, Inc. (MWSI) for CY 2020;*
- c. *Copy of the MWSS detailed plan for adoption of IPSAS 32 for the 3-year transitional relief period;*
- d. *Copy of the Manual of Policy for the adoption of IPSAS 32;*
- e. *Summary of major additions and improvements to the SCA for CY 2019 and 2020;*
- f. *Summary of unserviceable properties turned over to the MWSS for CYs 2019 and 2020; and*
- g. *Copy of concessionaires' Manual of Procedures or Policies on turned-over of unserviceable properties or retirements to the MWSS.*

1.10. In the absence of details and supporting documents on the initial recognition and measurement of SCA in 2020, the entries made are without basis. Also, as required by IPSAS 3, the opening balance of each affected component of net assets/equity for the earliest prior period presented should be adjusted, hence, the 2019 financial statements should have been restated to recognize the effect of the adoption of IPSAS 32.

1.11. The necessary details and documents in order to establish the validity and reliability of the reported balances and adjustments made were not submitted as of date of completion of audit.

1.12. In effect, the faithful representation of the SCA, Deferred Service Concession Revenue and other affected accounts was not established contrary to paragraph 27 of IPSAS 1 and the 2019 financial statements are materially misstated due to non-restatement of the opening balances of the affected components of net assets/equity contrary to IPSAS 3.

1.13. **We recommended that Management:**

- **a. Require the Finance Department to submit the following pertinent reports and records requested to substantiate the initial recognition of SCA and Deferred Service Concession Revenue:**

  1. **Confirmed detailed balances of the SCA in the books of the concessionaires as of December 31, 2020;**
  2. **MWSS Detailed Plan for the adoption of IPSAS 32 for the 3-year transitional relief period;**
  3. **Manual of Policy for the adoption of IPSAS 32;**
  4. **Summary of major additions and improvements to the SCA for CYs 2019 and 2020;**
  5. **Summary of unserviceable properties turned over to the MWSS for CYs 2019 and 2020; and**
  6. **Copy of concessionaires' Manual of Procedures or Policies on turned-over of unserviceable properties or retirements to the MWSS;**

b. **Require the Finance Department to restate the opening balances of net assets/equity accounts in the prior period financial statements presented on comparative basis with the current year financial statements and provide the required disclosure on the adoption of IPSAS 32; and**

c. **Require the Finance Department to perform a thorough analysis and validation of the Service Concession Assets and regularly monitor the subsequent events affecting the PPE accounts, upgrade on existing assets, impairment and depreciation of the SCA, including the General Administrative Equipment (GAE).**

1.14. On June 18, 2021, Management submitted copies of the Comparative Audited Financial Statements for CYs 2020 and 2019 of MWSI and MWCI.

1.15. Management added that MWSS thru the Finance Department is in coordination with the Concessionaires for their provision of a summary and details of additions/deductions to Service Concession Assets, as well as the amortization of the Deferred Service Concession Revenue for CY 2020.

1.16. Further, they commented that in relation to the Manual of Policy for the adoption of IPSAS 32, MWSS, created an Inventory Committee to perform full inventory of MWSS Assets and Service Concession Assets, in coordination with the Concessionaires to which timetable and schedule of activities will be undertaken.

1.17. As a rejoinder relative to the sufficiency of the information presented on the submitted Audited Financial Statements of the Concessionaires, we contend otherwise, since the audit team cannot verify the correctness of information on the detailed composition of the Service Concession Assets presented in the Notes to the Financial Statements for CY 2020 which were described as derived from the Audited Financial Statements of the concessionaires as these information cannot be traced to the Audited Financial Statements.

1.18. We maintained our position for the Finance Department to reverse the entries made in CY 2020 and submit the necessary documents before the initial recognition of the SCA and the Deferred Service Concession Revenue.

Property, Plant and Equipment

2. **The following errors and deficiencies in the Property, Plant and Equipment (PPE) account with carrying amount of P20.437 billion cast doubt on the faithful representation of the transactions affecting PPE and related accounts, caused by the lapses in the monitoring of assets and resulted to material misstatements adversely affecting the fair presentation of the said account in the financial statements, and the deterioration, loss, and wastage of MWSS properties contrary to the pertinent provisions of IPSASs. 1, 17 and 21, Section 111 of Presidential Decree No. 1445, COA Circular No. 80-124 and MWSS-CO Memorandum Circular No. 2020-03:**

a. **Incomplete Physical Inventory and Non-submission of Physical Inventory Report (PIR) for CYs 2019 and 2020;**

b. **Absence of certificates of titles and other proofs of ownership of land assets totaling P4.668 billion;**

c. **Non-provision of impairment losses for the inexistent, dilapidated, non-operational and/or abandoned Office Building and Other structures with carrying amount of P5.117 billion;**

d. **Unreconciled variance amounting to P3.248 billion between the CY 2018 Physical Inventory Report and the accounting records;**

e. **Unsupported adjustment amounting to P39.032 million relative to the sale of land to Silhoutte Trading in CY 1983;**

f. **Non-adjustment of the CIP account amounting to P156.551 million for the completed projects;**

g. **Various MWSS properties were occupied by private individuals or taken back by the donors;**

h. **Several deep wells (DWs) can no longer be located;**

i. **Upgrading works were left unfinished and various deficiencies were noted during inventory-taking and inspection;**

j. **Various deep wells (DWs) were observed to be temporarily suspended due to water qualities, non-operational and abandoned but not yet dismantled;**

k. **Non-submission of the Inventory Report of Unserviceable Properties for the disposal of unserviceable motor vehicles amounting to P78.025 million; and**

l. **Discrepancies in the deep wells were noted between the record/list of inventory items of MWSS CO as against the record/list of the MWCI**

2.1. Paragraph 27 of IPSAS 1 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. xxx.*

2.2. Under paragraph 21 of IPSAS 17, Infrastructure assets meet the definition of property, plant and equipment and should be accounted for in accordance with this

Standard. Also, under paragraph 36 thereof, the cost of a self-constructed asset is determined using the same principles as for an acquired asset.

2.3. The recognition and subsequent measurement criteria of PPE is governed by Sections 14 and 43 of IPSAS 17, respectively, which provide 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. xxx*
>
> *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. 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.*

2.5. 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.*

2.6. Under Section 111 of P.D. 1445, it imposes upon the government agency the proper keeping of the accounts 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 and to observe the highest standards of honesty, objectivity and consistency in the keeping of accounts to safeguard against inaccurate or misleading information.

2.7. COA Circular No. 80-124 dated January 18, 1980 mandates every agency to conduct its physical inventory of fixed assets at least once a year as of December 31. It also provides that:

> *Physical inventory-taking being an indispensable procedure for checking the integrity of property custodianship has to be regularly enforced and that the inventory reports shall be submitted to the Auditor not later than January*

31 of each year, unless extended by the Chairman upon prior request of the concerned head of agency concerned..

2.8. MWSS-CO issued Memorandum Circular 2020-03 dated January 8, 2020 providing its agency-specific guidelines which laid down the procedures on the disposals of unserviceable assets with an objective of ensuring systematic and timely disposal of government properties to avoid further deterioration of its value. It also specifies the responsibilities of the personnel involved in the process.

2.9. The MWSS, as a public utility agency is mandated to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes to its consumers at just and equitable rates. The following Property, Plant and Equipment (PPE) items have been the backbone of its assets, summary of the details is shown below, except for the Service Concession Assets (SCA):

Account	Balance 12/31/20	Additions	Depreciation	Net Book Value
Land	P 13,421,611,542	0	0	P 13,421,611,542
Building & Other Structures	2,618,641,593	0	(84,703,830)	2,533,937,763
Machinery and Equipment	54,246,930	2,459,048	(3,626,681)	53,079,297
Transportation Equipment	17,753,397	0	(2,859,279)	14,894,118
Furnitures, Fixture & Books	881,646	93,931	(52,084)	923,493
Construction Progress	3,838,482,300	573,936,659	0	4,412,418,959
Heritage Assets	4,000	0	0	4,000
Total	**P 19,951,621,408**	**P 576,489,638**	**P (91,241,874)**	**P 20,436,869,172**

2.10. In the review of transactions related to the above PPE items for CY 2020, we observed the following errors/deficiencies:

a. Incomplete Physical Inventory and non-submission of Report (PIR) for CYs 2019 and CY 2020

1. During CY 2018, we noted several errors and deficiencies in the PPE account based on the submitted Physical Inventory Report of the Management. However, despite the audit recommendations in CY 2018, we noted that MWSS failed to submit the required Physical Inventory Report for CYs 2019 and 2020.

2. The Management admitted that it has not completed the inspection and inventory of all the items of PPE due to the recurring problems on manpower limitation in the conduct of complete and continuous physical inspection and inventory of the items of PPE.

3. In the reply of Asset Management Department (AMD) dated June 16, 2020, they commented that the CY 2019 Physical Inventory Report is currently being reviewed and finalized for submission to COA by the end of July 2020

as additional inputs were incorporated to the said report relative to the MOA between MWSS and Land Registration Authority (LRA) on land title. However, in the recent inquiry with the AMD, it was admitted that it has not completed the CYs 2019 and 2020 Inventory Reports.

4. Also, a request was made to submit the CY 2020 Property Inventory Form on all insurable assets, properties and interests of the MWSS in compliance with COA Circular No. 2018-002 dated May 31, 2017, however, to date no such report was received.

b. **Absence of certificate of titles and other proofs of ownership of land assets totaling P4.668 billion;**

1. Upon review of the descriptions and details of each item in the Lapsing Schedule of the PPE for CY 2020 and based on the inspection of certificate of titles during CY 2018, the land assets totaling P4.668 billion do not have title numbers and/or with missing titles.

2. On the 175 land assets which include the 71 parcels of land which were reported to have missing titles, the Management explained that it has two remedies available, namely: (1) Administrative process and (2) Judicial process.

3. They added that the Administrative process is commenced by application of patent through the DENR after conduct of surveys and approval of subdivision plan. Once the patent is obtained, it shall be the basis for the issuance of the Original Certificate of Title (OCT) in the name of MWSS. The judicial process on the other hand is commenced by a petition before the court for the original registration. The court order in the land registration proceedings authorizes the LRA to issue the decree of registration in favor of MWSS.

4. As explained by the Management, the missing land titles were actually in the name of original private land owners upon whom the MWSS purchased the lots. The sale of the lots were annotated in the land titles however, it was not transferred in the name of MWSS because the mother title cannot be located.

5. Also, for the missing land titles not found in the vault, MWSS 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. However, upon inquiry, no such update as to the reconstitution or reissuance of duplicate TCTs were available.

6. During the inspection of titles, it was noted that there were 23 land titles under the custody of MWSS that were not recorded in the books. The Management said that some were already recorded in the old inventory list of the former Property Management Department but not taken up by the Finance Department. Both departments will evaluate and reconcile each lot to come up with a reconciled report. The AMD also informed that they have

already forwarded the documents to the Finance Department. However, the Finance Department said that reconciliation is still on-going.

7. In addition, according to the Management, if the lands are without land titles reflected therein the tax declaration number issued by the Assessor's Office where the property is located including the approved cadastral plan number, these lands can be counted as lots without land titles and not as missing titles. The Bureau of Lands has already issued an approved plan in favor of MWSS. However, a relocation plan has to be prepared by the MWSS which has to be examined by the LRA before a decree can be issued for the titling of the said properties.

8. The Audit Team requested for a detailed report on the status of the lands, its classification in the books and the LRA registry numbers for all the lands owned and controlled by the MWSS however, there was no report submitted. The Audit Team also asked copies of newly issued titles together with the pending applications for registration for issuance of certificate of titles however, only those right of way acquisitions or expropriated lots for the NCWS – Kaliwa Dam Project were submitted.

9. As reasoned out by the Management, the hindrances confronting the slow movement of titling real estate properties involves several activities that are inter-connected with each other and the performance and accomplishment of each activity is dependent on the outcome of each titling task without which the same could not be completed. It added that the Estate and Property Division will request the Management for the creation of Task Force-Titling or the hiring of 2 Geodetic Engineers. Their work will focus primarily on the lands without titles wherein MWSS ownership is based only on the tax declaration issued by the Assessor's Office where the assets are located.

10. It must be emphasized that the Transfer Certificate of Title (TCT) is the best proof of ownership of a piece of land. Thus, MWSS must secure certificate of title as the best evidence of its claim of ownership of its landholdings which comprises the substantial portion of its PPE. Further, Deeds of Donation over the Right of Way (ROW) and title to the lots used for the deep well operations which will support the rights over the real property were not kept or not in the possession of the MWSS.

11. In addition, examination of the list of the deep well pumping station submitted for inspection disclosed that some of these properties have no TCTs or Deeds of Donation and Acceptance (DODA). Out of the nine items inventoried, only five have data as to the title number, while the remaining four in the list indicated "No TCT".

12. In the Inspection Report prepared by the Physical Inventory Team as of October 16, 2019, scanned copies of the mentioned TCTs with memorandum of encumbrances were submitted. However, there were no DODA or any private deeds or instruments that will prove the conveyance of

real rights between the donor and the donee. Thus, we cannot establish that the real properties were indeed donated.

13. For the remaining properties, the AMD cannot commit to produce the other titles or/and deed of donation allegedly because there was no proper turnover of the documents and records from the previous officers in charge of the subject properties.

14. The MWSS CO does not have any copy of title evidencing real rights over the following properties.

Location
Tivoli Royale Subd. Batasan, Balara, Quezon City
Road 10, Brgy. Plaza, Pag-asa, Quezon City
Sto. Cristo ES, Nueva Vizcaya St. Bago Bantay, Quezon City
P. Burgos St. Escopa, Project 4, Quezon City
Josephine Bracken corner JP Rizal St., Project 4, Quezon City
Temple Drive, Green Meadows Subd., Quezon City.
Lot 12, Block 11, Green Meadows Subd., Quezon City
Hillside Loop cor. Hillside Drive, Blue Ridge Subd. Quezon City
Poolside, Nathan Road cor Derby St. White Plains Subd., Quezon
Queensville cor. Kingsville St., White Plains Subd., Quezon City
Riverdale cor. Astoria St., St. Ignatius Village, Quezon City
Jackson St., Don Antonio, Royale Subd., Quezon City

15. Most of these items/PPEs inventoried were recorded in the books of MWSS by virtue of donation from private entities when the operations of deep wells were taken over by the government. However, no copies of the MOA or DODA were presented. Hence, it was challenging for the MWSS to determine the extent of the right to use the properties, the area and boundaries involved, and the conditions or undertakings attached to the donation.

16. As per the latest Agency Action Plan and Status of Implementation (AAPSI) submitted on May 13, 2021, the AMD is currently coordinating with the Concessionaires to resolve these issues.

c. Non-provision of impairment losses for the inexistent, dilapidated, non-operational and/or abandoned Office Building and Other structures amounting to P5.117 billion;

1. Based on the available CY 2018 Physical Inventory Report, it was revealed that there were items that were inexistent/missing, dilapidated, non-operational and/or abandoned Office Building and various Other Structures with carrying amount of P5.117 billion. Hence, the PPE account of P20.437 billion is materially misstated.

Status	No. of Items	Net Book Value
Office Buildings		
Not existing	66	786,911
Dilapidated	10	807,646
Total	**76**	**1,594,557**
Other Structures		
Not existing	298	72,767,484
Abandoned	17	272,318,035
Dilapidated	8	1,428,496
Non-operational	105	4,768,464,000
Total	**428**	**5,114,978,015**
Grand total		**5,116,572,572**

2. In the CY 2019 Annual Audit Report (AAR), we recommended that Management explain the various PPE items that were not located and/or missing. In its reply, the AMD together with the Inventory Committee has been exerting efforts to verify the status of all MWSS property and equipment, including those that could not be located/missing. However, the Management has no action in CY 2020 for the noted exception.

3. In addition, we noted that MWSS did not provide for impairment losses in view of the result of the physical inspection. MWSS should assess/evaluate the noted exceptions which are factors or indicators of impairment of an asset. The Management should provide an allowance for impairment losses to reflect the correct recoverable amount of the assets.

4. 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.

d. Unreconciled variance amounting to P3.248 billion between the Physical Inventory Report and the Accounting Records

1. In CY 2018, we noted an unreconciled variance of P3.248 billion between the Inventory Reports and the accounting records that remained unexplained and unresolved as of December 31, 2020.

2. Notably, after verification of the journal entries in CY 2020, there were neither reclassification nor reconciliation made in order to effect changes made between the two reports. Thus, the unreconciled variance adversely affected the reliability of the PPE account.

3. Also, it is worthy to note that on July 8, 2019, the MWSS CO issued Office Order No. 2019-172 directing the offices concerned to properly reconcile the accounting and inventory records not later than December 31, 2019 and

for the inventory committee to submit the final report on or before January 20, 2020 to the Administrator for approval duly noted by the COA Auditor. However, according to the Management, this was not achieved due to the manpower constraints to perform the inspection, appraisal and reconciliation of records.

4. For CY 2020, according to the AMD, the same problem continues which is lack of personnel to perform the monitoring and detailed updates on the items for the office buildings and other structures. This was aggravated by the limited actual office hours brought about by the series of lockdowns and work rotations during the pandemic period.

5. To date, no subsequent compliance was submitted by the AMD on the status of implementation of the prior years' audit recommendation relative to this observation.

e. The adjustment amounting to P39.032 million relative to the sale of land to Silhoutte Trading in CY 1983 remained unsupported

The validity of adjustments made in dropping the land sold to Silhouette Trading in CY 1983 from the books of accounts was not established/validated due to inadequate documentation, discussed as follows:

1. Partial reconciliation showed a difference of 29.252 million sq. m. between the accounting records and the Appraisal Report in CY 1976. Management mentioned that there were typographical errors in the encoding of the Land area resulting to the overstatement of the accounting records, as summarized below:

Subsidiary Ledger No.	Area per books (sq.m.)	Area per Appraisal Report (sq.m.)	Discrepancy (sq.m.)
201-01-01-13-36069A	25,402,840	254,028	25,148,812
201-01-01-13-36069E	3,743,320	37,433	3,705,887
201-01-01-13-36069F	363,360	3,634	359,726
201-01-01-13-36069G	37,920	380	37,540
Total	**29,547,440**	**295,475**	**29,251,965**

2. However, the claims of the management were not supported with valid proof of the correctness of the land area which can be determined thru survey of the land and/or copies of titles or tax declaration. In addition, an adjustment of P39.032 million was effected by debiting Retained Earnings and crediting Land per JEV No. 2014-12-004950.

3. The Land Registration Authority, in its letter dated March 8, 2018, advised the MWSS to request the assistance of the DENR–Land Management Bureau (LMB) on the actual area of the land under TCT No. 36069 since the Consolidation-Subdivision Plan PCS-13 and Marinquina Estate which pertains to the subject land were DENR-LMB approved plans.

4. However, to date, no subsequent compliance was submitted by the AMD to this Office on the status of implementation of the prior years' audit recommendation related to this observation.

f. Non-adjustment of the Construction in Progress (CIP) account amounting to P156.551 million for the completed projects

1. In the CY 2020 Report of Completed Projects, we noted that five (5) completed projects with accumulated cost of P156.551 million remained recorded in the CIP account instead of the appropriate infrastructure asset account, contrary to paragraph 27 of IPSAS 1, as shown below:

Project Name	Balance as of 12/31/20
Angat Water Supply Optimization Project	82,574,731
Umiray Angat Transbasin Project	10,002,973
Manila Second Sewerage Project	2,478,439
New Water Sources Development Project	10,817,117
Manila Third Sewerage Project	50,677,422
Total	**P 156,550,682**

2. There are five MWSS projects that were already completed between CY 2002 to CY 2009, but are still recorded in the accounting records as CIP Verification of the journal vouchers for CY 2020 transactions showed no related entries to support the credit to the CIP account. No disclosures were made to reflect the reclassification of the accounts. Moreover, these CIP accounts were not supported with subsidiary ledgers.

3. Based on the submitted Reports on Programs, Projects and Activities (PPAs), these projects were already completed and operational. Therefore, the Management should recognize the proper PPE accounts and provide the corresponding depreciation expense.

4. According to Finance Department (FD), it cannot act upon the reclassification pending the complete submission of documents from the Engineering Department to support the reclassification. The Engineering Department on the other hand raised that it has already forwarded the pertinent documents to the FD for proper action.

5. In effect, the PPE account did not reflect the true nature of the assets and the corresponding depreciation expense were not recognized in the books resulting to misstatement by undetermined amounts.

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

1. Based on the Inspection Report prepared by the Physical Inventory Team as of October 16, 2019, permanent structures were built on the MWSS property and these structures were made as dwellings with some portions leased to others, thus, depriving the MWSS of its right to use the facility.

Deep wells constructed in the LGU-donated lots or on a privately-owned donated lot were already decommissioned and possession is restored to the donor without proper documentation.

2. The other properties have no detailed descriptions which made it difficult or impossible to identify what is included in the specific asset account. Consequently, the MWSS has to rely on the identification and declaration made by the concessionaires.

3. As per the latest AAPSI submitted on May 13, 2021, Management commented that they have been exerting efforts to verify the status of all MWSS property and equipment, including those that could not be located or were reported as missing.

h. Several deep wells (DWs) can no longer be located

1. In the CY 2019 ocular inspection conducted by AMD and witnessed by the Audit team, it was noted that several deep well pumping stations cannot be located due to either it was covered with debris from on-going construction within the premises or a structure was already built on top of the site.

    - In P. Burgos corner Circumferential Road, San Roque Antipolo City, Rizal, the deep well site was covered with debris of rocks and soil coming from the on-going private construction at corners P. Burgos and Circumferential Road, hence, it can no longer be located.

    - In Road to Teresa Street, Cainta, Rizal, a cemented structure that houses a small videoke leisure corner and sari-sari store storage was built on top of the deep well site. Thus, the deep well cannot be located anymore.

    - The deep well pumping station located at the back of Felix Memorial High School, now the One Cainta Municipal Hospital, cannot be traced anymore as the said pumping station is being used as storage/bodega for the said hospital.

    - In Esguerra Street Barangay, San Juan, Taytay, Rizal, the pump station is now being used as the terminal station of Taytay – Crossing Terminal and Office Jeepney Operators and Drivers Association (TAC-JODA) and a canteen/eatery was built on the other side of the terminal station.

    - In Gruar Subdivision, Barangay Sto. Domingo, Cainta, Rizal, the three deep well pumping stations which were no longer operational has already been demolished.

    - The deep well pump located at Gloria and Irma Street Marick Subdivision, Barangay Sto. Domingo, Cainta, Rizal, is no longer operational and has already been demolished.

- In Barangay Dolores, Taytay, Rizal, a certification was issued by the Secretary of Barangay Dolores, Taytay, Rizal, stating that the deep well pump along Sumulong St. besides Fire Station and St. John the Baptist Church is no longer operational and has already been demolished.

- In San Juan L. Santos corner A. Bonifacio Ave., Barangay San Juan, Taytay, Rizal, the deep well pumping station was already demolished.

- In J. P. Rizal Street, Sitio Bangiad, Taytay, Rizal, the deep well pumping station located at J.P. Rizal Street, Sitio Bangiad, Taytay was already demolished. The remarks column of the inventory list shows "MWSS verbal agreement only." Such remark was not clear even to the inventory team.

2. In addition, the Management did not provide a schedule of these deep wells with reported balances.

i. Upgrading works were left unfinished and various deficiencies were noted during inventory-taking and inspection

1. In the CY 2019 ocular inspection, it was noted that in San Fabian, Cainta, Rizal, the upgrading appurtenance of the deep well pump located at St. Robles Subdivision was left unfinished, hence, it has already deteriorated, and the deep well pump casing was missing as it was allegedly stolen.

2. It was noted that although there was a signage/standee displayed as "Project under Construction" which inform the public at large that the area is restricted, however, there is still risk of theft and pilferage considering the laxity in security of the area.

3. It was also noted that the Monitoring Control Pump voltage is still for rehabilitation and no updating was made thereon.

4. The Management should ensure that government properties are properly monitored to avoid any deterioration, loss or wastage of assets.

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

1. Based on the Inspection Report prepared by the Physical Inventory Team as of October 16, 2019, eight deep wells were temporarily suspended due to water qualities, non-operational and abandoned but not yet dismantled.

2. According to the management, the noted observations will be subject to reconciliation with the concessionaires.

k. Non-submission of the Inventory Report of Unserviceable Properties for the disposal of unserviceable motor vehicles amounting to P107.552

million and the remaining unserviceable properties as of December 31, 2020

1. In the CY 2016 AAR, we noted a discrepancy of P29.527 million on the disposal/sale of various unserviceable motor vehicles and other transportation equipment between the Report of the AMD and the accounting records. The AMD reported unserviceable General and Administrative Equipment (GAEs) amounting to P107.552 million that have been disposed while the accounting records showed P78.025 million.

2. We recommended that Management submit the necessary report, however, there was no compliance by the MWSS since CY 2017.

3. The propriety and validity of these items cannot be ascertained due to the non-submission of the Inventory of Unserviceable Properties during the year. The non-submission of the Inventory Report of Unserviceable Properties prevented the Audit Team from verification of the correctness of the remaining book values/salvage values.

l. Discrepancies in the list of deep wells between the records of MWSS CO and MWCI.

1. During the CY 2019 inventory and inspection in Cainta and Taytay, Rizal, copy of the list of PPEs with their locations was provided by the concessionaire. It shows the 23 deep well pumping stations in the province of Rizal. On the other hand, inventory list submitted by the MWSS-CO consists only of 11 turned-over deep wells, hence a discrepancy of 12 items.

2. The demolished Esguerra Compound deep well pump station located at Esguerra Street Brgy. San Juan, Taytay was not included in the inventory list of AMD.

3. The Lunsad deep well pump station located at Duavit Street, Barangay Lunsad, Binangonan was not included in the inventory list of AMD and presumed as a private deep well pump since it is not listed in the MWCI.

4. There was no information or record from AMD for the Isagani deep well pumping station located at Taytay, Rizal and hence, the deep well pumping station cannot be located.

5. As per the latest AAPSI submitted on May 13, 2021, there was no reconciliation submitted for the noted discrepancies. The AMD is currently coordinating with Concessionaires to resolve these issues.

2.11. We recommended and Management agreed to require the AMD and the Finance Department to:

a. AMD to conduct complete annual physical inventory and submit the CY 2020 Physical Inventory Report (PIR) and Inspection and Inventory of

Unserviceable Properties (IIRUP) with identification and description of turned-over GAEs from the concessionaires and with analysis and reconciliation with the Accounting records;

b. **AMD to account and secure the land titles in MWSS's name and institute procedures on proper safekeeping and custody of the land titles and determine the ownership of the 23 land titles under the custody of MWSS that were not recorded in the books;**

c. **Finance Department to provide allowance for impairment losses to reflect the recoverable amount of the inexistent, dilapidated, non-operational and/or abandoned Office Building and Other structures with carrying amount of P5.117 billion;**

d. **AMD to provide status of inspection of the reported non-operational and abandoned properties and prepare a Management plan for the disposal of these unserviceable properties through public auction or other modes of divestment as may be warranted after duly complying with prior inspection and appraisal procedures laid down under MWSS-CO Memo Circular 2020-003, including the turned over GAE;**

e. **Finance Department and AMD to address the causes of the P3.248 billion unreconciled variance in CY 2018 and account for the status and developments after conducting the Inventory for CY 2020;**

f. **Finance Department to submit the supporting documents for the adjustment made amounting to P39.032 million pertaining to the land derecognized in the books upon sale to Silhouette Trading, reconcile the discrepancies noted, and make the necessary adjustments, if warranted;**

g. **Finance Department to reclassify the cost of completed projects to the appropriate PPE accounts and recognize the related depreciation expense reckoned from the date that the assets became operational;**

h. **AMD to confer with the Legal Department on MWSS rights over the properties occupied by private individuals or taken back by donors to determine the appropriate action to enforce its rights against the unlawful/unauthorized use of the said properties or the proper accounting treatment of said properties;**

i. **AMD and Finance Department to identify the decommissioned and abandoned deep wells with the structures thereon and determine the carrying amount of said properties for the recognition of impairment loss in the books as warranted;**

j. **AMD to conduct investigation on the unfinished upgrading of the deep well appurtenances in San Fabian St. Robles Subdivision, Cainta, Rizal and identify who shall be made liable for the unfinished work which resulted to the deterioration of the appurtenance and for the missing pump casing;**

k. **AMD to address and resolve the cause or causes of the temporary stoppage of the deep well operation by regular communication and coordination with the concessionaires;**

l. **AMD to submit the Report on the Inventory of Unserviceable Properties disposed in 2016 amounting to P107.552 million and the remaining unserviceable properties as of December 31, 2020;**

m. **Finance Department to review the records pertaining to the sale of unserviceable GAE with discrepancies amounting to P29.527 million, reconcile the pertinent records and make the necessary adjustments; and**

n. **AMD to: (i) explain the discrepancies of the recorded PPE items (deep well pumping stations and appurtenances etc.) as against the inventory list of the concessionaire MWCI; (ii) prepare the correct and updated record of MWSS (iii) formulate an overall strategy relative to the deep wells that have already ceased operations; (iv) install security measures in the areas where the deep well operations were stopped, suspended or abandoned, in order to protect and safeguard the remaining properties including the deep well appurtenances; and (v) recover the salvage value of the metal pipes, equipment and other items for disposal.**

Receivables

3. **The collectability of the receivables carried in the books at P4.255 billion is doubtful due to the dormancy of the accounts and may not reflect the reasonable recoverable amounts due to the absence of assessment and regular monitoring of the accounts, hence the balance is materially misstated as of December 31, 2020, and may affect generation of additional funds for operations contrary to paragraph 22 of IPSAS 26, COA Circular No. 2016-005 and the 1997 Concession Agreement.**

3.1 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.*

3.2 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.*

3.3 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

3.4 The Dormant Receivables accounts amounting to P4.255 billion are broken down as follows:

Particulars	Amount
Disputed Claims against MWSI	P 4,048,079,993.91
Receivable – Water/Sewer account	1,116,986,530.01
Allowance for Impairment losses	(1,116,986,530.01)
Guarantee deposits from Customers	148,295,641.43
Receivables from Concessionaires	52,440,462.31
Inter-Agency Receivable	5,004,784.03
Inactive Raw Water Accounts	1,518,685.63
Total	**P 4,255,339,567.31**

a. *Disputed claims against MWSI amounting to P4.048 billion*

Particulars	***Amount***
Cost of Borrowing	
MWSI-Borrowing Cost-BNP PARIBAS-US$150M-Interest	P 3,776,336,730.46
MWSI-Borrowing Cost-BNP PARIBAS-US$150M-Withholding Tax	176,328,836.38
MWSI-Borrowing Cost-BNP PARIBAS-US$150M-Others	167,860.76
Interest/Penalty on Unpaid Borrowing Cost	95,246,566.31
Total	**P 4,048,079,993.91**

1. Based on Management's representation, on March 8, 2001, due to financial difficulties, MWSI suspended payment of concession fees. From March 2001 to July 2001, MWSS used its own funds to meet the maturing obligations of MWSI. Thereafter, from July 2001 to 2006, MWSS had to obtain a number of loans from various banks and financial institutions to meet its maturing obligations and expenses which the (unpaid) concession fees from MWSI were supposed to cover.

2. Despite continuous negotiations, several disputes between MWSI and MWSS led the former to issue a "Notice of Early Termination of the Concession" on December 9, 2002. On January 7, 2003, MWSS arbitration proceedings were commenced and on November 7, 2003, the Appeals Panel for Major Disputes ruled that (1) there was no MWSS or Concessionaire Event of Termination under Article 10 of the Concession Agreement (CA), (2) the parties should continue to perform their

obligations under the CA until the expiration thereof, and (3) MWSS may draw on the USD120 million Performance Bond. The Arbitration Order became final on November 22, 2003.

3. During the pendency of the corporate rehabilitation proceedings, and prior to the drawing on the $120.000 million Performance Bond, MWSS had to seek funding from other sources to meet its maturing obligations and operating expenses. As a result, on March 16, 2004, MWSS with the Republic as Guarantor, and BNP Paribas, entered into a Subscription Agreement wherein BNP Paribas agreed to subscribe to the MWSS-BNP Notes.

4. MWSS asked the opinion of the OGCC relative to the current dispute between MWSS and MWSI regarding the Subscription Agreement entered into by MWSS with BNP Paribas Securities Services. The OGCC issued Opinion No. 215 series of 2011 dated October 5, 2011, paragraph 16 of which stated that the dispute between MWSS and MWSI arose when MWSI refused to pay for the additional Corporate Operating Budget (COB) incurred by MWSS. The OGCC opinion stated that all costs incurred by MWSS for securing various loans and funding arrangement to pay for its obligations which should have been covered by the unpaid concession fees should be charged to Maynilad or MWSI since these are paid out of government funds which must be safeguarded with utmost fidelity by MWSS.

5. The disputed claims consists of the cost of borrowing including the principal, interest and finance charges such as bank conversions, documentary stamps, cable charges and penalties.

6. Also, according to the Management, MWSS is still pursuing the disputed claims on the cost of borrowings from MWSI relative to the BNP Paribas loan. However, copies of the supporting legal documents that were requested were not submitted to us. Management has not made an assessment of the recoverable amount of claims against the MWSI as basis for the recognition of impairment loss for 2020.

b. *Receivable – Water/Sewer accounts totaling P1.117 billion*

1. The receivables amounting to P1.117 billion represents the accounts from water service customers prior to MWSS' privatization in 1997. Details of these accounts were not established since there were no available account summary of customers and subsidiary ledgers except for the voluminous collection stubs safely kept at the MWSS storage room. This account was provided with 100% allowance for impairment losses.

c. Guarantee deposits from MWSI and MWCI totaling P148.296 million

1. MWSS recognized *Guarantee Deposits* due from the Concessionaires totaling P148.296 million as of December 31, 2020, as follows:

Guarantee Deposit Claim	
MWSI	P 82,712,511.65
MWCI	65,583,129.78
Total	**P 148,295,641.43**

2. *Guarantee deposits* are customer deposit prior to the privatization of MWSS. The amounts were withheld by the two concessionaires from the collection of accounts receivable from water and sewer services of MWSS at the onset of the privatization where the two concessionaires were authorized to collect.

3. Based on management's representation, MWSS and the two concessionaires went into reconciliation to arrive at the amount of guarantee deposit to be refunded to MWSS. On May 11, 2011, the MWSS Administrator requested from the MWCI the refund of guarantee deposits which was deducted from the collections of the MWSS customers receivables covering the period August 1997, including the 2.91 per cent interest, with a grand total of P9.902 million. In view thereof, on November 30, 2011, MWCI paid the amount of P6.627 million. Likewise, on June 6, 2014, MWSS also requested MWSI for the refund of guarantee deposits of P30.198 million. The amount of P12.284 million was paid in August 2017.

4. We requested for Management comments regarding the status of the subject claims, however, there was no response received from them.

5. We would like to emphasize that Section 6.4(a) of the Concession Agreement should have been strictly imposed to the Concessionaires in order to collect the fees due to the government. The non-collection of these receivables affected the generation of funds for operations.

d. Receivables from Concessionaires amounting to P52.440 million remained uncollected despite maturity of the loans in the previous years.

1. *Accounts Receivable from Concessionaires – Debt Service* account has a balance of P52.440 million representing Principal, Interest and Guarantee Fee on loans despite maturity of the said loans in the previous years. Details are as follows:

Loan No.	Maturity	Loan	MWCI	MWSI	Total
ADB 986	2014	Principal	P 5,362,830.67	P 20,327,520.29	P 25,690,350.96
		Interest	20,094,260.85	546,080.90	20,640,341.75
		Guarantee Fee	4,751,993.07	12,975.85	4,764,968.92
Sub-total			**30,209,084.59**	**20,886,577.04**	**51,095,661.63**
ADB 2012	2013	Interest	2,550.18	0	2,550.18
		Guarantee Fee	13,903.35	0	13,903.35
Sub-total			**16,453.53**	**0**	**16,453.53**
ADB 947	2012	Interest	20,545.71	0	20,545.71
Sub-total			**20,545.71**	**0**	**20,545.71**
	2016	Interest	397,269.73	0	397,269.73

Loan No.	Maturity	Loan	MWCI	MWSI	Total
IBRD 4019		Guarantee Fee	27,427.90	0	27,427.90
Sub-total			**424,697.63**	**0**	**424,697.63**
IBRD 3124	2009	Guarantee Fee	883,103.81	0	883,103.81
Sub-total			**883,103.81**	**0**	**883,103.81**
Total			**P 31,553,885.27**	**P 20,886,577.04**	**P 52,440,462.31**

2. Since the loans pertaining to the outstanding receivables already matured, all payments thereof should be due and demandable from the two Concessionaires.

3. We requested the Management to submit actions taken for the noted exception, but none was received as of date of completion of audit.

4. Similarly, Section 6.4(a) of the Concession Agreement should have been strictly imposed to the Concessionaires in order to collect the fees due to the government.

e. Dormant Inter-agency receivables amounting to P5.005 million

1. Analysis of the Inter-agency receivables account showed uncollected receivables from various government agencies totaling P5.005 million which remained dormant in the books for more than ten (10) years, details is shown below:

Name	Amount
DPWH - Office Rental	P 1,209,411.05
DPWH – Others	2,654,086.44
PRRC - Office Rental	391,343.40
PRRC – Electricity	443,799.01
Due from NGA- DBM Procurement Service	11,344.50
Due from GOCCs - Ninoy Aquino International Airport (NAIA)	4,195.56
Due from GOCCs - Dormant Accounts	277,580.40
City of Manila	13,023.67
Total	**P 5,004,784.03**

2. The nature and purpose of the above accounts could not be determined due to unavailability of historical data to support their existence. Inquiry with Management revealed that they are not familiar with the accounts and no actions were made to collect these receivables. No impairment loss was provided on these accounts for 2020.

f. Inactive Raw Water Accounts totaling P1.519 million

1. Raw Water accounts arise from the sale of service water to areas not covered by the service of MWSI.

2. Analysis of the account disclosed that receivables totaling P1.519 million from the eight (8) inactive Raw Water customers remained outstanding for several years.

3. Collection of receivables is an agency responsibility since Management is expected to exert effort to recover/collect the said receivables being legitimate income and source of funds of the Agency and failure to collect will result in loss to government.

4. Verification disclosed that no collection was made on the above outstanding accounts during the year. No impairment loss was provided on said accounts for 2020.

3.5 We noted that these dormant receivables amounting to P4.255 billion, except for the Water/Sewer accounts, were not provided with impairment losses in order to reflect the estimated recoverable amounts.

3.6 In addition, inquiry with Management revealed that the dormant receivables totaling P4.255 billion were not collected and/or no actions were taken to collect the receivable accounts in CY 2020. Also, Management has not made an assessment of the estimated recoverable amount from these dormant accounts as basis for the recognition of impairment loss.

3.7 **We recommended and the Finance Department agreed to:**

a. Provide allowance for impairment losses on the dormant receivables to reflect the recoverable amounts;

b. Analyze the dormant receivable accounts to determine if they are qualified for write-off under COA Circular No. 2016-005 and accordingly, request for authority to write-off from the Commission on Audit;

c. Submit an updated report on the arbitration of the disputed claims with MWSI amounting to P4.048 billion together with all the supporting legal documents;

d. Formulate a schedule of payment for the Guarantee Deposits and Debt Service, and impose the collection of the amounts due from the Concessionaires;

e. Analyze and reconcile the receivable account from the two Concessionaires and if a shortfall of collection is found, immediately enforce collection of the amount advanced by the MWSS to pay the matured loans; and

f. Send demand letters on the Receivables from government agencies and Inactive Raw Water customers amounting to P5.005 million and P1.519 million, respectively.

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4. **The Lease Receivables account is overstated by P15.514 million due to the recognition of the account despite non-renewal of lease contracts which affected the faithful presentation of the Receivables account and contrary to IPSAS 1.**

   In addition, the non-collection of rental payments amounting to P47.026 million affected the generation of MWSS funds and contrary to Sections. 4 and 102 of Presidential Decree No. 1445.

4.1 Paragraph 27 of IPSAS 1 discusses the requirement of faithful representation to wit:

> *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.*

4.2 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.*

4.3 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.*

4.4 Confirmations were sent to four government agencies for the leased properties, of which, only two agencies submitted their replies. The results of confirmation showed a variance totaling P15.514 million between the book balances and lessee's records, as shown below:

Name	Balance per Book	Confirmed Balance	Discrepancy
NLRC	790,707.98	1,396,692.81	P 605,984.83
LWUA	15,082,291.07	174,002.67	14,908,288.40
Total	**15,872,999.05**	**1,570,695.48**	**P 15,514,273.23**

4.5 The noted discrepancies were due to the non-renewal of MWSS of the Contract of Lease Agreements, hence, affecting the accuracy of the reported balance of P15.873 million.

4.6 In addition, the non-collection of rental payments amounting to P47.026 million due to the non-renewal of Contract of Lease Agreement affected the generation of MWSS funds, as follows:

Particulars		Amount
LWUA	P	14,775,969.03
SC		32,250,000.00
Total	**P**	**47,025,969.03**

a. LWUA - P14.776 million

1. LWUA's unpaid rentals for the leased area of 10,238.68 sqm within MWSS Complex amounted to P14.776 million. The lease contract of the said leased area expired on July 31, 2019. Per MWSS Board Resolution No. 2019-164-CO dated October 10, 2019, MWSS increased the monthly rental charges of LWUA for the building and parking spaces from P24,889.00 to P892,599.59. However, the renewal of the lease contract is still in process.

2. Inquiry with Finance Department disclosed that billing statements were sent monthly for the unpaid rents, however, LWUA still pays the old rental rate of P24,889.00. In addition, inquiry with AMD revealed that the lease contract between MWSS and LWUA is not yet perfected due to the non-signing of the latter of the lease contract which includes the said unpaid rentals. According to AMD, LWUA appealed to MWSS for a lower rate and forwarded this appeal to the Board of Trustees, however, the Board recommend to first verify the financial status of LWUA before considering the request.

3. The unpaid rental fees of LWUA for the increase of the rental rate has accumulated to P14.776 million for the period August 2019 to December 2020, details shown below:

New Monthly Rental fee	P 892,599.59
Multiply by: Unpaid month (August 2019 to December 2020)	17
Total	**15,174,193.03**
Less: Payments made (Old rate) (24,889.00 x 16 months)	398,224.00
Total Unpaid rent	**P 14,775,969.03**

b. SC - P32.250 million

1. The unpaid rentals from the Supreme Court (SC) of the Philippines amounting to P32.250 million is computed as follows:

Monthly Rental fee	P 750,000.00
Multiply by: Unpaid month (May 29, 2017 to December 28, 2020)	43
Total Unpaid rent	**P 32,250,000.00**

2. SC leased the property of MWSS located at Arroceros, Manila for their office use with monthly rental of P750,000.00. Review of the account revealed that the SC's last payment for the rental fee was on July 2017 for the period April 29 – May 28, 2017. We noted that the Lease Contract between MWSS and SC expired on May 28, 2017 and that the SC has an accumulated unpaid rent of P32.250 million which is equivalent to 43 months rental from May 29, 2017 to December 28, 2020.

3. Further inquiry disclosed that SC still occupy the leased building and billing statements were continuously sent for their unpaid rents, however, no payments were received. On the expired lease contract with SC, Management added that pending the renewal of the lease contract, the SC negotiates for the renovation of the building roofing which to date, the proposed design for the renovation is still on going. Moreover, inquiry with AMD disclosed that the renewal of the lease contract with SC is in process.

4. The gaps in the enforcement of collection of rentals and prompt renewal of the lease contracts resulted in the accumulation of receivables from said government agencies.

4.7 **We recommended and Management agreed that:**

a. **Finance Department to provide the correcting entries for the noted misstatements in the Lease Receivables account amounting to P15.514 million; and**

b. **Office of the Administrator to make representations with the management of LWUA and SC for the renewal of the Contract of Lease and payment of rental fees totaling P47.026 million for the lease of MWSS properties.**

Unreconciled/Unverified Accounts

5. **Assets and liabilities amounting to P574.475 million and P884.548 million, respectively, included in various assets and liabilities accounts in the financial statements as of December 31, 2020 were unaccounted and undocumented, hence, the faithful representation of the related accounts was not established contrary to IPSASs. 1 and 21, Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities and Sections 1 and 2 of Executive Order No. 87, series of 2019.**

5.1 Paragraph 27, IPSAS I 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.

5.2 Paragraph 3.10 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities provides the definition of faithful representation as one of the qualitative characteristics of information to be presented in the Financial Statements:

To be useful in financial reporting, ***information must be a faithful representation of the economic and other phenomena that it purports*** *to represent*. *Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance which is not necessarily always the same as its legal form.* (emphasis supplied)

5.3 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.

5.4 Sections 1 and 2 of Executive Order No. 87, series of 2019, provides that:

Section 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.

Section 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.

5.5 As of December 31, 2020, MWSS-CO has total assets of P216.735 billion and total liabilities of P169.298 billion. However, the reported accounts in the CY 2020 financial statements include accounts tagged as *Unreconciled/Unverified Asset accounts* amounting to P574.475 million which is equivalent to 0.27% of the Total Assets and *Unreconciled/Unverified Liability accounts* amounting to P884.548 million, equivalent to 0.52% of the Total Liabilities.

5.6 The CY 2020 Notes to Financial Statements disclosed that these *Unreconciled/Unverified account balances* refer to the carryforward balances of prior years and mostly from the transactions before the privatization in 1997.

5.7 In our validation of these items, we noted that these *Unreconciled/Unverified accounts* were not supported with subsidiary ledgers and documents. In addition, these accounts remained the same for several years. The year-end account balances for the four-year period showed that the management did not reconcile nor verify the accounts, as follows:

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Account	Balance as of CY2017	Balance as of CY2018	Balance as of CY2019	Balance as of CY2020
Asset Accounts				
Loans and Receivable Accounts	P 21,596,858.00	P 21,596,858.00	P 21,596,858.00	P 21,596,858.00
Other Receivables	1,108,354.00	1,108,354.00	1,108,354.00	1,108,354.00
Prepayments	96,513,125.00	96,513,125.00	96,513,125.00	96,513,125.00
Other Current Assets	17,813,593.00	17,813,593.00	17,813,593.00	17,813,593.00
Property, Plant and Equipment, net	457,018,739.00	457,018,739.00	457,018,739.00	457,018,739.00
Other Non-Current Assets	(19,575,783.00)	(19,575,783.00)	(19,575,783.00)	(19,575,783.00)
Total Unreconciled Assets	**P 574,474,886.00**	**P 574,474,886.00**	**P 574,474,886.00**	**P 574,474,886.00**
Liability Accounts				
Financial Liabilities	533,802,867.00	533,802,867.00	533,802,867.00	533,802,867.00
Trust Liabilities	171,961,336.00	171,961,336.00	171,961,336.00	171,961,336.00
Other Payables	156,151,332.00	156,151,332.00	156,151,332.00	156,151,332.00
Deferred Credits	22,632,720.00	22,632,720.00	22,632,720.00	22,632,720.00
Total Unreconciled Liabilities	**P 884,548,255.00**	**P 884,548,255.00**	**P 884,548,255.00**	**P 884,548,255.00**

5.8 According to the Finance Department, there were no adjusting entries made in the books. They explained that the difficulty in finding the supporting documents and lack of manpower caused the non-reconciliation of the accounts.

5.9 However, as early as CY 2016, the Management commented that it planned to hire contract service personnel to augment their workforce to assist in the verification and reconciliation of the balances. However, to date no positive and significant results have been reported.

5.10 The unaccounted and undocumented assets totaling P574.475 million were not provided with impairment loss resulting to misstatement by undetermined amount. On the other hand, unaccounted and undocumented liabilities totaling P884.548 million were not reverted to Accumulated Surplus/Deficit account resulting to overstatement of recorded liabilities by P884.548 million.

5.11 **We recommended that the Finance Department provide allowance for impairment loss on the unaccounted and undocumented assets reported at P574.475 million and revert back the unaccounted and undocumented liabilities totaling P884.548 million to Accumulated Surplus/Deficit account.**

5.12 The Management commented that considering that most of the amounts are carried over balances since the inception of the eNGAS, and that the employees who used to handle the accounts and their reconciliation have already retired and no turnover of documents were made, the current personnel handling the accounts have difficulties in conducting the reconciliation and analysis. However, they shall exert effort to gather supporting documents and evidence to support the balances and cleaning of the accounts.

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Other Assets

6. **The existence and validity of the Other Assets account amounting to P225.001 million cannot be ascertained due to the dormancy of the account and non-submission of supporting documents, hence did not reflect the reasonable recoverable amounts, that affected the faithful representation of the asset accounts contrary to IPSASs 1 and 21.**

6.1 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.

6.2 Paragraph 7 of the same IPSAS defines assets as resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. The Framework sets forth the criteria for asset recognition which consist of the probability of future economic benefits and the reliability of measurement of an item in the Statement of Financial Position.

6.3 Paragraphs 22 of IPSAS 26 – Impairment of Cash-Generating Assets and 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 amount of the asset.

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.

6.4 In our examination of the Other Assets account, we noted that the total amount of P225.001 million was non-moving or dormant for several years, as follows:

Particulars	Balance as of 12/31/20
Dormant Accounts	P688,359,478.57
Allowance for Impairment	(519,000,421.20)
Non-operational Assets	38,816,036.36
Garnished Accounts	10,613,511.99
Research and Development	6,212,055.00
TOTAL	**P225,000,660.72**

6.5 According to the Management, when the agency started to implement the e-NGAS software in CY 2007, the above subject accounts were recognized as Other Assets in the accounting system. However, the migration to the automated system was implemented without proper validation or physical inventory taking of the tangible assets.

6.6 Composition of the affected accounts as of December 31, 2020, are as follows:

a. Dormant Accounts, net – P169.359 million

Particulars	Reference	Amount
Customers Account for Write-off	290-05-04	P 525,703,918.74
Accounts Receivable Under Government Litigation	290-05-10	85,519,514.71
Restoration Works	290-05-03	29,054,312.65
Returned Dishonored Checks	290-05-12	17,586,551.27
Cash-Collecting Officers	290-05-13	5,747,157.91
Due from Local Government	290-05-07	4,272,542.89
Due from National Government	290-05-06	3,575,826.62
Claims from Accountable Officers for Cash Shortage	290-05-11	3,509,305.72
Deposits for the exercise of an option to buy/lease	290-05-01	1,092,093.00
Unaccounted/Unliquidated Cash Advance	290-05-09	875,350.67
Performance Deposits	290-05-02	306,102.07
Expropriation	290-05-08	258,987.62
Others (various old accounts)	290-05-05	10,857,814.70
TOTAL		**P 688,359,478.57**
Allowance for Impairment losses		519,000,421.20
NET TOTAL		**P 169,359,057.37**

b. Non-Operational Assets – P38.816 million

Particulars	Reference	Amount
Pipes	99-990-02-01	P 525,703,918.74
Structures and Improvement	99-990-02-07	85,519,514.71
Distribution, Reservoir and Standpipes	99-990-02-04	29,054,312.65
Buildings and Improvement	99-990-02-05	17,586,551.27
Wells and Facilities	99-990-02-06	5,747,157.91
NET TOTAL		**P 169,359,057.37**

c. Garnished Accounts – P10.614 million

Particulars	Reference	Amount
Isabelo Ong Const. Inc/CIAC No.04-96 Civil Case No.91-148(Wholesale Commodity and Exch. Inc)	290-04-01	P 328,373.13
Philippine Infrastructures Inc. c/o Sheriff E. Santos	290-04-04	1,062,650.58
A.M. Oreta& Co. Inc. c/o Sheriff Mercedes S.	290-04-06	6,949,023.49

Particulars	Reference	Amount
Gatmaytan Vs. MWSS/CIAC Case MP/06-97 Isabelo Ong Const. Inc, vs. MWSS /CIACNo.16-97	290-04-07	2,273,464.79
TOTAL		**P 10,613,511.99**

d. Research and Development – P6.212 million

Particulars	Reference	Amount
Technical Assistance	290-03-02-01	P 4,445,570.25
Evaluation/Review of Laiban Dam Project	290-03-04-04-01	349,720.05
Review of Loan Documents	290-03-03-01-01	20,000.00
Salary & Int'l. Fare (for Consultancy Services as Dam Expert from Nov. 14-20, 2002)	290-03-01-01-01	877,660.92
Hotel Accommodation & Other Expenses of the Consultant, from Nov. 15-19, 2002 (Charged from His Credit Card)	290-03-01-01-02	13,152.00
Reimbursement of Other Expenses of the Consultant), from Nov. 15-19, 2002 (Charged from His Credit Card)	290-03-01-01-03	4,416.00
Salary & Int'l Fare of the Consultant, for the Initial Safety Assessment of Angat Dam Per November 2002	290-03-01-01-04	183,600.00
Salary & Airfare for the Consultant, for Initial Safety Assessment of Angat Dam & Carbon Dating of Soil & Rock Samples	290-03-01-01-05	317,935.55
Adjustment of Salary & Airfare of the Consultant, for the Initial Safety Assessment & Carbon Dating of Soil & Rock	290-03-01-01-06	0.61
TOTAL		**P 6,212,055.38**

6.7 We have requested the concerned Departments to provide us the necessary information and supporting documents in order to establish the existence and validity of the subject accounts. However, the Management was not able to submit the requested information and documents necessary for our validation of accounts. The management explained that they have initially tried searching the supporting documents into the storage rooms. Likewise, they also stated that they are looking forward to exert effort to locate the documents. However, this has not been prioritized yet due to the pandemic crisis and the implementation of alternative work arrangements.

6.8 In addition, we also requested the management to submit the Manual of Policy and any future plans or actions for these dormant accounts. However, the Management said that, there is no manual of policy being implemented as regards these dormant accounts.

6.9 Hence, the Management should provide impairment losses for these dormant accounts to reflect the reasonable recoverable amounts for faithful representation of accounts.

6.10 **We recommended that Management:**

a. **Require the Finance Department to provide allowance for impairment losses to reflect the reasonable recoverable amounts;**

b. **Require the Finance Department to submit to the Commission on Audit a request for write-off of the dormant accounts, if the said accounts qualify for write-off;**

c. **Require the Legal Department to provide status of claims under government litigation, claims from AOs for cash shortage and garnished accounts; and**

d. **Require the Legal Department to identify all the persons liable for the necessary legal action of MWSS to recover its claims.**

6.11 Management commented that considering that most of the amounts are carried over balances since the inception of the eNGAS, and that the employees who used to handle the accounts and their reconciliation have already retired and no turnover of documents were made, the current personnel handling the accounts have difficulties in conducting the reconciliation and analysis. However, they shall exert effort to gather supporting documents and evidences to support the balances and cleaning of the accounts.

Cash in Bank

7. Unreconciled variance amounting to P101.362 million between the book and bank balances of Cash in Bank account reported in the financial statements at P3.105 billion, due to non-preparation of Bank Reconciliation Statements (BRS) casts doubt on the validity and accuracy of the account balance contrary to paragraph 27 of IPSAS 1, COA Circular No. 2020-02, and Sections 74 and 122 of Presidential Decree (PD) No. 1445.

7.1 Paragraph 27 of IPSAS 1 discusses the requirement of faithful representation to wit:

> *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)*

7.2 Section 74 and 122 of P.D. 1445 provides that:

Section 74. Monthly reports of depositories to agency head. At the close of each month, depositories shall report to the agency head, in such from as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that a reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.

Section 122. 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. (2) Failure on the part of the officials concerned to submit the documents and reports mentioned herein shall automatically cause the suspension of payment of their salaries until they shall have complied with the requirements of the Commission. xxx.

7.3 Audit of Cash in Bank account revealed the following discrepancies between the book and bank records, as shown below:

Account Name	Balance per Book	Balance per Bank	Variance
Local Current Account - LBP	P 21,693,957.23	P 122,784,124.49	P 101,090,167.26
Local Current Account- PNB – Corporate Office	(10,388.31)	0	10,388.31
Local Current Account - PNB – Main Fund	(211,307.69)	0	211,307.69
Local Savings Account - PNB Corporate Office	16,474.15	0	16,474.15
Local Savings Account - PNB Main Fund	33,257.75	0	33,257.75
Total	**P 21,521,993.13**	**P 122,784,124.49**	**P 101,361,595.16**

7.4 ***LBP account discrepancy - P101.090 million***

The Finance Department submitted only three (3) LBP current accounts. They explained that they are still securing credit and debit memos of the LBP current account.

7.5 ***PNB account discrepancy – P271,427.90***

All the PNB accounts were closed in CY 2015 in compliance with DOF Circular Nos. 001-2015 and 002-2015. However, MWSS still reported the PNB accounts in the books with negative balances, net amounting to P171,964.10, as shown below:

Account Name	Type	Book Balance	Total
Local Current Account- PNB – Corporate Office	Combo Account	P (10,388.31)	P 6,085.84

Account Name	Type	Book Balance	Total
Local Savings Account - Corporate Office		16,474.15	
Local Current Account - PNB – Main Fund	Combo Account	(211,307.69)	(178,049.94)
Local Savings Account - Main Fund		33,257.75	
Total PNB Balance		**P (171,964.10)**	**P (171,964.10)**

7.6 Explanation have been requested from the Management of the above recorded balances of four PNB accounts in the books, but no explanation was received yet.

7.7 On March 11, 2021, we have requested the management for the submission of the Bank Reconciliation Statements. However, the Management has not submitted the Bank Reconciliation Statements for CY 2020 of the following bank accounts totaling P159.576 million:

Bank and Type of Account	Balance per Book
LBP - Current Account	P 21,693,957.23
DBP - Savings Account	137,892,313.56
LBP - Savings Account (managed by BTr)	109,136.03
LBP – Savings Account (Foreign currency)	38,490.91
PNB – Current Account	(10,388.31)
PNB – Savings account	16,474.15
PNB – Current Account	(211,307.69)
PNB – Savings Account	33,257.75
BSP account (managed by BTr)	14,153.82
Total	**P 159,576,087.45**

7.8 The verification of the noted discrepancies on the reported cash balances could not be done due to the non-preparation and non-submission of Bank Reconciliation Statements of the Management.

7.9 In addition, we would like to emphasize that this is a reiterated audit observation. Inquiry with Finance Department revealed that they usually prepare and submit only four LBP current/checking accounts as per turn-over by the previous personnel handling the preparation of the BRS.

7.10 BRS are only submitted by Finance Department upon request of the Audit Team, which is not in compliance with Section 74 of P.D. 1445 wherein at the close of each month, reconciliation should be made. BRS of the Agency's current and savings accounts should be prepared and submitted on a monthly basis.

7.11 The conduct of periodic bank reconciliation is an indispensable tool of a sound internal control system over cash and cash equivalents as it will help not only in the identification and detection of errors/discrepancies between the book and bank balance and to come up with the correct book balance, but it also aids in the prevention and detection of fraud.

7.12 These material variances noted between the bank and book balances of the Cash in Bank account which remained unreconciled affected the fair presentation of the account and other affected accounts in the financial statements as necessary adjustments were not taken up in the books.

7.13 **We recommended and Management agreed that Finance Department prepare and submit the periodic bank reconciliation statements for all the bank accounts and take up the necessary adjustments on the variances noted, including the closed PNB accounts with net amount of P171,964.10 to arrive at the correct balance of the Cash in Bank account.**

7.14 For LBP account discrepancies, the Management commented a thorough BRS is being done for the unrecorded collections and disbursements per books of accounts vis-à-vis bank balances and that prospectively, they will adhere to submit BRS on a monthly basis.

7.15 For PNB account discrepancies, the Management commented that these accounts were already closed in CY 2015 in compliance with DOF Circular Nos. 001-2015 and 002-2015. However, due to lack of supporting documents over the years to substantiate such closure, the PNB negative balances are still intact with MWSS books of accounts. Further, coordination with PNB will be done for the needed supporting documents for the account reconciliation and dropping off in the books.

8. Cash in Bank is overstated by P62.831 million due to the Management's practice of recognition of *Cash in bank – Foreign Currency Savings Account* for the ODA loan availments under Direct Payment Procedure mode which affected the fair presentation of the account in the financial statements contrary to IPSAS 1 and COA Circular 2020-02.

8.1 COA Circular 2020-02 dated January 28, 2020 prescribes the adoption of the Revised Chart of Accounts (RCAs) for Government Corporations (GC) where Item 2.1 provides for the implementing guidelines that the GC shall recognize their transactions in accordance with the updated RCA prescribed therein. Also, Annex C provides for the description of the updated accounts including the description of Cash in Bank, Foreign Currency Savings Account, as follows:

> *This account is debited to recognize deposits of cash in foreign currency in a **savings account with Authorized Government Depository Bank (AGDB)**, including credit advices/memoranda received from AGDBs.*
>
> *This account is credited for withdrawals of cash from AGDBs including debit advices/memoranda received from AGDBs. (emphasis ours)*

8.2 Audit of the year-end balance of *Cash in Bank – Foreign Currency, Savings Account* revealed a discrepancy of P62.831 million. The subsidiary ledger for Angat Water Transmission Improvement Project (AWTIP) presented a year-end balance of P62.831 million. However, verification with the Management revealed that there was no physical bank account being maintained for the cash proceeds of the loan availment from the ADB yet MWSS concurrently records cash transactions.

8.3 Review of the AWTIP account revealed that the account is being used in recording loan drawdowns/receipt of loan proceeds from Asian Development Bank (ADB) and progress billings for the projects, even if there was no actual cash received by MWSS from ADB under a Direct Payment Procedure.

8.4 In our walkthrough test, we noted that the loan availment is in a form of Direct Payment Procedure. Upon receipt of MWSS of the Statement of Account (SOA) or Billing Statement from the Contractor/Supplier, MWSS will request the ADB/China Eximbank to pay the amount due directly to the Contractor/Supplier. MWSS will then prepare and submit a Withdrawal Application (WA) to ADB/China Eximbank.

8.5 Upon receipt and verification of the WA from MWSS, the ADB/China Eximbank will directly credit the loan drawdown to the account of the Contractor/Supplier and will issue a Notice of Disbursement to MWSS.

8.6 MWSS, upon its receipt of the Notice of Disbursement from the ADB/China Eximbank, will recognize the loan proceeds and subsequently recognize the Construction in Progress (CIP) Account.

8.7 However, we noted that MWSS used the ***Cash in bank – Foreign Currency Savings Account*** as a suspense/temporary account in its recognition of the progress billings and drawdown of loans even if there was no actual cash received by MWSS.

8.8 Illustrative entries made by Finance Department are as follows:

	Debit	Credit
Cash in bank – Foreign Currency, Savings Account	XXX	
Loans payable – Foreign		XXX
To record loan drawdowns or receipts		
Construction in Progress – Agency Assets	XXX	
Cash in bank – Foreign Currency, Savings Account		XXX
To record progress billing		

8.9 Inquiry with the management disclosed that the recognition of suspense account cash in bank – foreign, savings account, is being done for ease of monitoring of transactions related to the loan availment and payments to the contractor, thus there should be corresponding cash in and out in loans receipts and loan disbursement.

8.10 This practice of recognizing Cash in bank accounts, wherein there was no actual cash receipts, resulted to misleading financial information and affected the fair presentation of the financial statements.

8.11 Further verification revealed that the reported year-end balance of P62.831 million of the AWTIP account was due to the late recording of progress billing/payment to the contractor/supplier. They added that they are waiting for the remittance of the Concessionaire for the VAT portion of the billing before recording the progress billing/payment. Nevertheless, this year-end balance of the AWTIP account amounting to P62.831 million formed part of the Cash and Cash Equivalents in the financial statements even if there is no such actual cash in bank being maintained by MWSS resulting to overstatement of the total assets contrary to IPSAS 1 on fair presentation of the the results of transactions.

8.12 **We recommended and Management agreed that Finance Department:**

a. **Take up the necessary adjustments to correct the misstatement amounting to P62.831 million; and**

b. **Stop the practice of recording cash in bank for the ODA loan availments under Direct Payment Procedure mode**.

8.13 The Finance Department fully acknowledged the result of the audit. They commented that instead of using the Cash in Bank Foreign Currency Savings Account, they conform with the pro-forma entries suggested for non-cash availment of loan proceeds as provided in the Guidelines on the Audit of Foreign Assisted Projects (GAFAP) under COA Memorandum No. 2015-004 dated March 10, 2015.

Deferred Credits

9. Other Deferred Credits account was overstated by P31.808 million caused by the following errors affecting the Liability account and contrary to IPSASs 1, 3 and 9:

a. Recognition of Other Deferred Credits amounting to P16.583 million instead of Sales from Scrap materials;
b. Recognition of Other Deferred Credits amounting to P1.386 million instead of Sales from Bidding documents;
c. Recognition of Other Deferred Credits amounting to P620,053 instead of Trust Liabilities – Customers' Deposit Payable; and
d. Recognition of Other Deferred Credits amounting to P13.219 million instead of Deposits

9.1 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.

9.2 IPSAS 1, paragraph 48 - Offsetting states that assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS. It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows.

9.3 Revenue from Exchange Transactions, as defined under paragraph 11 of IPSAS 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.

9.4 Paragraph 28 of IPSAS 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.

9.5 COA Circular 2020-02 dated January 28, 2020 prescribes the adoption of the Revised Chart of Accounts (RCAs) for Government Corporations (GC) where Item 2.1 provides for the implementing guidelines that the GC shall recognize their transactions in accordance with the updated RCA prescribed therein. Also, Annex C provides for the description of the updated accounts including the description of the Customers' Deposit Payable to wit:

> *This account is credited to recognize the receipt of cash deposits from customers for goods/services to be delivered and property to be leased. This account is debited upon application of the deposit to the cost of the goods/services delivered and of the damages to the leased property, upon refund of the cash receipts, and/or adjustments.*

9.6 Analysis of the account balances from CY 2019 to CY 2020 are shown below:

Particulars		2020	2019	Increase (Decrease)
Other Deferred Credits				
Deferred Credits to		59,167,165	54,611,273	4,555,892
Disposal/Public Auction	(a)	35,699,020	35,804,104	(105,084)
Rental of MWSS		30,724,507	13,994,589	16,729,918
Cost of Lot Housing	(d)	13,219,098	13,219,098	-
Miscellaneous – Others	(c)	8,441,962	263,843	8,178,119
Interest		8,423,623	8,423,623	-
BID Documents	(b)	833,023	290,172	542,851
Amount withheld for		192,820	25,705	167,115
Other Deferred Credits		-	12,623,799	(12,623,799)
Total		**156,701,218**	**139,256,206**	**17,445,012**

9.7 Examination of the accounts disclosed the following errors and deficiencies in the recognition of the Deferred Credits amounting to P31.808 million, as follows:

a. Cash receipts from the sale of scrap materials amounting to P16.583 million remained recorded in the books as Other Deferred Credits account instead of revenue.

1. Receipt of proceeds from the sale of scrap materials amounting to P16.583 million was recorded as Other Deferred Credits as follows:

Particulars	SL Code	Amount credited to Other Deferred Credits
Metalbank, Inc.	455-01-02-439	P 1,071,428.59
Disposal of Assets	455-01-10-01	82,079.26
Undistributed Collection-Disposed Construction Materials	455-02-02-03	14,869,335.80
Undistributed Collection-Disposed/Loss of fixed asset /equipment	455-02-02-04	560,267.87
	Total	**P 16,583,111.52**

2. Upon examination of the related transactions, the sale of scrap materials falls within the scope of revenue recognition under paragraph 28 IPSAS 9, hence should be recognized as revenue instead of Other Deferred Credits.

3. Management explained that the Finance Department expects to complete first the documentations regarding the disposal to be submitted by the Asset Management Department (AMD)/Disposal Committee to support the closing of sold PPE from the books. With the cash received from disposal, the department temporarily recognized the Other Deferred Credits. Then, upon completion of the documents, the department will derecognize the Other Deferred Credits and recognize the corresponding gain or loss.

4. The said practice does not conform to IPSAS 9 on the recognition of revenue from exchange transactions which resulted in the understatement of revenue and overstatement of other deferred credits, a liability account, by P16.583 million. Essentially, the effect of the transaction was not properly presented in the financial statements.
5. Assessing the company's practice on recognizing the Other Deferred Credits account for the sale of scrap materials, it may affect the fair presentation of the income statement and this might mislead the users of the financial statements on the true income of the company. Also, crediting the Other Deferred Credits account for this transaction will be construed as unearned revenue until earned (goods given/service rendered); which, in this case, does not conform with *IPSAS 9 – Revenue from Exchange Transactions*.

b. Proceeds from the sale of bidding documents totaling P1.386 million was erroneously recorded in the books as Other Deferred Credits account despite the non-refundable nature of the cash receipts.

1. Analysis of the subsidiary ledger of the Other Deferred Credits account revealed that the amounts of P542,851.01 and P843,741.17 during the CYs 2020 and 2019, respectively, representing proceeds from sale of bidding documents were recognized as Other Deferred Credits instead of miscellaneous income.

Particulars	SL Code	2020	2019
Contractor A	455-01-10	P 44,642.86	P 0.00
Sale of Bid Documents – Procurement	455-01-10	498,208.15	843,741.17
	Total	P **542,851.01**	**P 843,741.17**

2. Management explained that the receipt from sale of bid documents is being lodged to Other Deferred Credits account since the expenses relating to the bidding (*meals expenses for BAC and TWG meetings and honoraria for BAC, BAC Sec and TWG members*) are being deducted from the receipts.

3. The Other Deferred Credits is closed to Income or Retained Earnings as soon as the related expenditures relating to the bidding process have been deducted already. Assessing the above-mentioned practice of recognition, this offsetting of accounts is not permitted under IPSAS 1.

4. Notwithstanding Management's explanation, the said practice does not conform to IPSAS 1 considering that the nature of the transaction is receipt of income and not incurrence of liability.

c. Cash receipts from bonds amounting to P620,053 were recognized as Other Deferred Credits instead of Trust Liabilities – Customers' Deposit Payable

1. The use of various MWSS properties including, but not limited to, Carriedo space, rooftop, multi-purpose hall, and other leased areas, requires the payment of cash bond. It represents the security which shall compensate in case of damages after the lease of MWSS properties. Cash bond is returned to the lessee upon completion of actual use of the property.

2. Audit of CY 2020 balance of Other Deferred Credits disclosed that the amount of P620,053.77 pertains to transactions involving payment of cash bond for the lease of MWSS property. The transactions clearly fall under the description of the *Customers' Deposit Payable* account.

3. Management acknowledges that their entry of cash bonds to Other Deferred Credits is a misclassification. They will consider reclassifying the cash bonds to a more appropriate account.

d. Cost of Lot for Housing with year-end balance of P13.219 million pertains to undistributed collections received from former and present employees, and non-MWSS employees.

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1. The Cost of Lot for Housing with year-end balance of P13.219 million pertains to the undistributed collections received from payors who are former and present employees, and non-MWSS employees. It was learned that since 2007, only P252,000 was refunded to the payors of lot for housing project.

2. We have previously recommended that Management determine who among the payors actually availed of the housing project in order to reduce the undistributed collections totaling P13.219 million under the Deferred Credits account and adjust to its proper account.

3. However, we noted that there was no action or compliance for the noted exception. As per Management representation, thru the Agency Action Plan and Status of Implementation submitted to this Office on May 7, 2021, the implementation is on-going since the accounts are being reconciled. Further inquiry was made to the Management however no response was received yet.

4. The noted misstatements in the Other Deferred Credits account amounting to P13.219 million affects the reported balances of the liability and revenue accounts and the fair presentation of the said accounts in the financial statements.

9.8 **We recommended that the Finance Department:**

a. **Provide the correcting entries for the misstatements in the Other Deferred Credits account amounting to P31.808 million and stop the practice of recording the receipts of proceeds from sale of scrap materials as Other Deferred Credits, instead, record the same by closing the related PPE account and corresponding accumulated depreciation, and gain or loss on sale;**

b. **Establish a source document for the monitoring of the PPE/scrap materials sold for proper dropping of the accounts;**

c. **Record the proceeds from sale of bid documents as Miscellaneous Income and take up expenses related to bidding as a separate journal entry from the sale of bid documents to correctly reflect the substance of the transaction;**

d. **Record the receipt of cash bonds as Customer's Deposit Payable account; and**

e. **Review the records pertaining to the housing project to determine who among the payors actually availed of the housing project in order to adjust the undistributed collections totaling P13.219 million to the proper accounts.**

9.9 Management concurred with the recommendation to stop the practice of recognition of Deferred Credits for receipts of proceeds from the sale of PPE/scrap materials, .

However, the Finance Department found it as the most practical way in order to recognize in the books of accounts the receipt of cash. Despite their desire to comply with the proper accounting treatment for the collection, absence of the required documents for the dropping of disposed assets prevents them from doing so. Further, as regards the recommendation to ensure that the amount of the actual proceeds from sale of scrap materials are correctly reported in the books, the Finance Department believes that all cash receipts are correctly reported as received from the hauler/buyer.

9.10 We contend otherwise, because in the Manual of Disposal of Government Property, one of the requisites prior to the disposal is the preparation of the Inventory & Inspection Report, Report of Waste Materials or Invoice Receipt for Property, to which, identification of the assets recorded in the books is needed prior to the actual disposal.

9.11 Management has concurred with the other audit recommendations.

Restricted Fund

10. The Other Assets – Restricted Fund is understated by P12.734 million due to non-monitoring and non-reconciliation of the account which affected the fair presentation of the financial statements contrary to IPSAS 1 and Section 111 of Presidential Decree No. 1445.

10.1 IPSAS I, 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.

10.2 Section 111(1) of P.D. 1445 on the keeping of accounts, which provides –

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.

10.3 The Other Assets – Restricted Fund account has a year-end balance of P503.520 million composed of the following:

Account Code	Account Name	Amount
197-01	Special Reserve Fund	P 431,789,263
197-03-01	SM Prime Holdings, Inc.	37,560,096
197-03-02	Bulacan Bulk Water Supply Project	10,114,327
197-03-03	Angat Dam Dyke Strengthening Project	24,056,384
Total		**P 503,520,070**

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10.4 Confirmation reply from the Bureau of Treasury (BTr) for the balance of Special Reserve Fund revealed a discrepancy of P12.734 million, as shown below:

Account Name	Balance per Book	Balance per BTr/LBP	Discrepancy
Special Reserve Fund	P 431,789,263	P 444,523,445	P 12,734,182

10.5 Inquiry from Finance Department disclosed that the variance was due to the adjustment made by BTr on the revaluation gain/loss on the account but they are still coordinating with BTr on the nature of the adjustments made.

10.6 The noted discrepancies in the Other Assets – Restricted Fund and MWSS' non-reconciliation resulted to the understatement of the account by P12.734 million and affected the fair presentation of the financial statements contrary with IPSAS 1 and Section 111 of Presidential Decree No. 1455.

10.7 **We recommended and Management agreed that Finance Department take up the necessary adjustments to correct the understatement of the reported balances of the Restricted Fund by P12.734 million.**

Other Payables

11. Dormant accounts amounting to P60.658 million and abnormal balances amounting to P2.048 million cast doubt on the reliability of the reported Other Payables accounts, thus, affecting the fair presentation of the accounts in the financial statements contrary to IPSAS 1.

11.1 Paragraph 27 of IPSAS 1 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.

11.2 Analytical procedures and inquiries were made on the audit of subsidiary ledgers, general ledgers and schedules of Other Payables accounts generated from the e-NGAS. Audit revealed that there are numerous subsidiary ledgers of Other Payables with debit balances as of year-end amounting to P2.048 million.

11.3 We have noted 39 remaining debit balances at year-end which unnecessarily reduced the balance of other payables, thus cast doubt on the validity and accuracy of the said account. These negative balances are to be analyzed for adjustment or reclassification to proper accounts.

11.4 More so, verification of the subsidiary records revealed that there are accounts which remained outstanding for five (5) years amounting to P60.658 million. This amount consist of numerous payees with subsidiary records totaling 635 accounts.

11.5 Management is already aware of the accounts presented in other payables, although based on the foregoing concerns, it will check and validate the amounts for CY 2020 and shall take proper action for reconciliation and tracing if the obligations still exist.

11.6 **We recommended and Management agreed that Finance Department analyze and review the validity of all recorded payables from various payees that remained outstanding for 5 years amounting to P60.658 million, for proper adjustment; and review the subsidiary accounts with abnormal balances and accordingly, take up the necessary adjustments.**

Sinking Fund

12. Non-submission of the supporting documents for the closure of the bank account and derecognition in the books of the Angat Sinking Fund Reserve in the amount of P29.510 million intended for the Angat Serial Bonds raised doubt on the faithful representation of the account contrary to PD No. 1445 and Section 11 of CY 2020 General Appropriations Act (GAA).

12.1 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."* (emphasis supplied)

12.2 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.

12.3 Section 11 of the GAA for FY 2020 – Transparency of Public Funds provides that:

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*In like manner, departments, bureaus, offices, and instrumentalities of the National Government, including Constitutional Offices enjoying fiscal autonomy and SUCs and **GOCCs shall post on their respective official websites information relating to public funds deposited, maintained, and invested by them with any banking or financial institution** which shall include, but not limited to the following: (i**) name of the banking or financial institution/s where public funds are deposited, maintained or invested;** (ii) specific income or fund sources; (iii) legal basis for depositing,* *maintaining or investing said income/fund source/s with the bank/s or financial institution/s; (iv) allowable uses/purposes of the income or fund; (v)* ***monthly balances of each account or fund; and (vi) such other pertinent information*** *as may be reasonably required to be posted by the agency concerned on its website.* (emphasis supplied)

12.4 On December 12, 1989, a Sinking Fund was set-up in connection with the issuance of the MWSS Angat Serial Bonds which matured on April 30, 2002. The fund is being managed by Bangko Sentral ng Pilipinas and later on transferred to the Bureau of the Treasury (BTr) on June 30, 1995.

12.5 On April 30, 2002, the Angat Sinking Fund Reserve in the amount of P27.814 million with value dated August 26, 2003, were fully redeemed by MWSS and the amount was transferred by BTr to MWSS Current Account 244-500163-8 with PNB MWSS Branch which was recorded under JEV No. 05-11-28010 dated October 7, 2003.

12.6 However, validation of the Cash in Bank account with PNB thru confirmation disclosed that MWSS has no active account anymore with the PNB. Discrepancies in the book records as against the bank confirmation was raised in an earlier Audit Observation Memorandum to which explanation has been requested from the Management of the above recorded balances of four (4) PNB accounts in the books, but no explanation was received yet.

12.7 Further, there were noted interest earned on the MWSS Angat Sinking Fund for the 4th Quarter of 2003 and 3rd Quarter of 2004 totaling P77,321.51 despite the maturity date of the Fund on April 30, 2002, details of interest earned is shown below:

Particulars	JEV Date	JEV Number	Debit Amount
To take up interest earned on MWSS Sinking Fund with BTr for the 4th Qtr. of 2003 dated November 12, 2003	01/13/2004	05-506/03	P 22,050.40
To adjust the overstatement on the estimated amount of interest earned for the 4th Qtr. of 2003 per BTr letter dated January 15, 2004	02/02/2004	05-516/03	(11,581.15)
To take up interest earned on MWSS Sinking for the 3rd Qtr. of 2004 per BTr letter dated October 7, 2004	10/11/2004	05-/04	66,852.26
Total			**P 77,321.51**

12.8 In CYs 2014 and 2015 Annual Audit Reports (AARs), we recommended that Management require the Finance Department to immediately reconcile the sinking fund transactions with the BTr due to the BTr's consistent confirmation on the non-existence of the fund in their books.

12.9 On December 28, 2016, the Sinking Fund account of P29.510 million was derecognized in the books per JEV-2016-12-004219, leaving zero balance of the Sinking Fund account. Entries made are as follows:

Retained Earnings 29,510,406
Sinking Fund 29,510,406

12.10 However, the attached documents were insufficient to support the derecognition of the account despite our prior audit recommendation to reconcile with BTr. It can be deduced that Management merely prepared an adjusting entry to tally its records with the BTr without supporting documents and proper reconciliation with BTr.

12.11 In CY 2016 AAR, due to the derecognition of the sinking fund account in the books without proper reconciliation with BTR and non-submission of supporting documents, it was recommended that the Finance Department (a) explain the interest earned of P77,321.51 even after the redemption date of the MWSS Angat Sinking Fund and the remittance of the remaining balance of the Fund by the BTr; (b) reverse the entries made under JEV-2016-12-004219 (i) pending reconciliation of the Sinking Fund Reserve balance with BTr; and (ii) submission of copies of bank statements on PNB Current account 244-500163-8 maintained by MWSS with PNB MWSS Branch.

12.12 To date, no compliance was made by MWSS of the above audit recommendation and no explanation was submitted on our inquiry with Management regarding the derecognition of the sinking fund account in CY 2016.

12.13 **We recommended and Management agreed that Finance Department immediately reverse the derecognition entries made for the Sinking Fund and submit the supporting documents for the closure of the Angat Sinking Fund Reserve amounting to P29.510 million.**

12.14 The Management further commented that they will seek assistance from the BTr to provide the required supporting documents and/or any reconciliation as applicable.

Investment in Stock

13. Unaccounted Certificates of Stock amounting to P2.045 million casts doubt on the validity of the Investment in Stocks of the same amount, thus, affecting the faithful representation of the account contrary to IPSAS 1 and Section 111 of Presidential Decree No. 1445.

13.1 Paragraph 27 of IPSAS 1 – Presentation of Financial Statements discusses the requirement of faithful representation to wit:

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.*

13.2 Section 111 of Presidential Decree No. 1445 states that:

(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.

(2) The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.

13.3 Investment in Stocks account are the investments of MWSS CO in publicly listed companies in which they acquired shares of stocks to earn dividend income from the company. Some of the shares that the MWSS CO acquired are PLDT and MERALCO.

13.4 The books of MWSS CO presented the CY 2020 and CY 2019 ending balances and it shows that there was no movement throughout the year:

Investment in Stocks	**CY 2020**	**CY 2019**
PLDT (1,850 shares)	P 372,650	P 372,650
MERALCO (64,894 shares)	2,151,518	2,151,518
TOTAL	**P 2,524,168**	**P 2,524,168**

13.5 Management submitted the original copies of PLDT and MERALCO stocks certificates for validation and inspection. Upon inspection of the certificates, we have noted unaccounted stock certificates amounting to P2.045 million as follows:

Investment in Stocks	**Original Stock Certificates**	**Per books**	**Unaccounted**
PLDT	P 298,500	P 372,650	P 74,150
MERALCO	180,400	2,151,518	1,971,118
TOTAL	**P 478,900**	**P 2,524,168**	**P 2,045,268**

13.6 Therefore, the book balance of the Investment in PLDT amounting to P74,150 and Investment in MERALCO amounting to P1.971 million were not supported with stock certificates. The management informed us that the documents transmitted to us are the only stock certificates that are available to them.

13.7 The absence of stock certificates of investments amounting to P2.045 million casts doubt on the validity of the year-end balance of the account.

13.8 **We recommended and Management agreed that Finance Department make representations with PLDT and MERALCO to verify and reconcile the correct**

balance of their investment and secure copies of stock certificates amounting to P2.045 million.

Due from Officers and Employees and Other Receivables

14. The Receivable-Disallowance/Charges account is understated by P27.313 million due to non-recognition of Notices of Disallowance with issued Notices of Finality of Decision (NFD) and the Due from Officers and Employees is overstated by P26.504 million contrary to Section 22.6 of COA Circular No. 2009-06, Rules and Regulations on Settlement of Accounts (RRSA), thus with net understatement of the Receivable account by P809,970.00.

14.1 Section 22.6 of COA Circular No. 2009-006 dated September 15, 2009 provides that:

The Chief Accountant shall, on the basis of the NFD, record in the books of accounts, the disallowance and/or charge as receivable.

14.2 During CY 2020, Notices of Finality of Decision (Annex A) were issued to the following Notices of Disallowances after the lapse of six (6) months from the date of issuance of the NDs without appeal filed by the Management:

ND No.	ND Amount	Balance December 31, 2020
2019-03-05 (PYs) – MPLP	P 27,855,701.21	P 26,503,504.91
2019-02-05 (18) - Meals	809,970.00	809,970.00
Total	**P 28,665,671.21**	**P 27,313,474.91**

14.3 However, we noted that the subject NDs with issued NFDs were not recognized as *Receivables-Disallowances/Charges account.* Instead, the disallowances were classified as *Due from Officers and Employees account* for the MPLP while the ND for Meals were not recognized in the books.

14.4 The Management informed that they were not aware that the NDs with issued NFDs should be classified as Receivables-Disallowances/Charges.

14.5 We emphasized to the Management that the NFD is a written notification that a decision of the Commission on Audit has become final and executory and that the same should be recorded under Receivables-Disallowances/Charges account to recognize the amount due from persons liable for monitoring and recovery by Management as provided in COA Circular No. 2009-006. Failure to effect the NFD in the books of accounts understated Receivables-Disallowance/Charge by P27.313 million which is the actual nature of the receivables.

14.6 **We recommended and Management agreed that Finance Department:**

a. Reclassify the Due from Officers and Employees with outstanding balances of P26.504 million to Receivables- Disallowances/Charges; and

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b. Recognize additional Receivables-Disallowances/Charges amounting to P809,970.00 relative to the NFD issued for the Meal Allowance.

14.7 The Management commented that the subject NDs will be taken up in the books in CY 2021.

15. The negative balance totaling P8.235 million in the Due from Officers and Employees account reduce the balance of the account and casts doubt on the validity of the balance at year end amounting to P36.171 million, thus, affecting the faithful representation of the account contrary to IPSAS 1 and COA Circular No. 2016-005.

Likewise, various employees were continuously deducted monthly amortization totaling P1.278 million as of December 31 2020 despite having negative balances.

15.1 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.

15.2 Section 7 of COA Circular 2016-005, states that:

The Accountant shall:

*7.1 **Conduct regular and periodic verification, analysis, and validation of the existence of the receivables**, unliquidated cash advances, and fund transfers, and determine the concerned debtors, accountable officers (Regular and Special Disbursing Officers, Collecting Officers, Cashiers) and the source and implementing government entities concerned.* (emphasis ours)

15.3 Audit of the *Due from Officers and Employees* account revealed that 181 subsidiary accounts have negative balances totaling P8.235 million as of December 31, 2020. This is due to the non-verification of the accounts for subsequent adjustment.

15.4 Moreover, out of the 181 accounts with negative balances, we noted that there were nine (9) individual subsidiary ledger accounts that were continuously deducted with loan amortization despite having negative beginning balances at the start of year 2020.

15.5 Inquiry from the Finance Department on the negative balances in the *Due from Officers and Employees* disclosed that they have a separate book for the above receivables, however, reconciliation and verification of the receivables were not immediately conducted due to the retirement of the personnel maintaining the books without the proper turnover/endorsement of all the pending works for reconciliation.

15.6 Section 7 of COA Circular 2016-005 prescribed the periodic verification, analysis and validation of the existence of the receivable account to ensure that all receivables are correctly recorded in the books.

15.7 The non-verification of the accounts for proper adjustment resulted to accumulation of unadjusted negative balances that affected the fair presentation of the Due from Officers and Employees account.

15.8 **We recommended and Management agreed that Finance Department prepare the necessary adjusting journal entries to correct the abnormal balances and to regularly analyze and monitor the Due from Officers and Employees account.**

15.9 The Management commented that the housing and car loans are being reconciled by the concerned personnel and adjustments will be duly taken up in the books if warranted.

Statutory Contributions

16. Non-accrual of MWSS share for the contributions to GSIS, Pag-IBIG and PhilHealth amounting to P742,143, P11,900 and P75,374, respectively, due to the non-inclusion of the items in the accrual list for adjustment resulted to the understatement of expense and liability accounts by P829,417.19, contrary to IPSAS 1.

16.1 Paragraph 1 of IPSAS 1 – Presentation of Financial Statements provides that:

> *The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. The recognition, measurement and disclosure of specific transactions and other events are dealt with in other IPSASs*

16.2 MWSS, in its significant accounting policies as presented in the Notes to the Financial Statements, use the accrual basis of accounting, to wit:

> *3.1 Basis of Accounting*
>
> *The consolidated financial statements are prepared on an accrual basis in accordance with the IPSASs.*

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16.3 Verification of the balance of Due to GSIS, Pag-IBIG and PhilHealth as of December 31, 2020 revealed that Employer (ER) share totaling P829,417.19 was not recorded in the books of accounts. MWSS did not record accrual for ER share at year end. The ER Share as reported in the Schedule of Remittance are as follows:

Schedule	ER Share
Due to GSIS	P 742,143.12
Due to Pag-Ibig	11,900.00
Due to Philhealth	75,374.07
Total	**P 829,417.19**

16.4 The existing accounting practice of MWSS on the withholding and remittance of mandatory contributions pertains only to the Employee share. The Employer (ER) Share is not being accrued on the month the salaries were incurred, and only records the ER share upon remittance.

16.5 The Finance Department issued a memo as part of the financial statement closing process for the list of accruals to have full grasp on the transactions for CY 2020. However, confirmation with the management revealed that the accrual for ER share is not included as part of the accrual list.

16.6 **We recommended and Management agreed that Finance Department include the recognition of employer share as part of year-end accruals.**

17. The validity of the withholding of government statutory contributions under the accounts Due to GSIS, PhilHealth and Pag-IBIG amounting to P722,010 was not ascertained due to the non-submission of the Journal Entry Vouchers (JEVs) contrary to IPSAS 1, COA Circular No. 2012-001 and PD No. 1445.

17.1 COA Circular No. 2012-001 dated June 12, 2021 reiterates the fundamental principles governing the financial transactions and operations of any government agency as stated in Section 4 of PD No. 1445:

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6. Claims against government funds should be supported with complete documentation.

17.2 Section 43 of PD No.1445 provides the powers, functions, and duties of the auditors as representative of this Commission. One of the functions enumerated is that the auditor shall have the custody, and be responsible for the safekeeping and preservation of paid expense vouchers, journal vouchers, and other similar documents together with their respective supporting papers.

17.3 Section 122 thereof provides for the authority of this Commission to cause the submission of reports, to wit:

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.*

17.4 Audit revealed that the JEVs on the withholding of employees' share on the government statutory contributions to GSIS, PhilHealth and Pag-IBIG for December 2020 amounting to P722,010 were not yet submitted to this Office.

17.5 On various occasions, we have requested the submission of the required documents for our CY 2020 year-end audit . The non-submission of the subject documents precluded the validation of the accounts and determination of the propriety of accounting entries and correctness of computation.

17.6 Further, it is emphasized that claims against the government funds should be supported with complete documentation, otherwise, the same are subject of audit suspension and/or disallowance.

17.7 **We recommended and Management agreed that Finance Department immediately submit the JEVs of the statutory contributions amounting to P722,010 for our validation.**

18. Discrepancies amounting to P4.510 million between the amount of taxes withheld on salaries and remitted. Also, abnormal balances amounting to P42,408 in the subsidiary ledgers (SL) and discrepancies amounting to P85,780 between the general ledgers (GL) and remittance schedules were noted in the statutory accounts - GSIS, PhilHealth, and Pag-IBIG due to the non-reconciliation of accounts and cast doubt on the validity and accuracy of the accounts contrary to IPSAS No. 1.

18.1 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

18.2 Audit of taxes withheld from salaries and remitted disclosed that the total amount of taxes withheld per schedule for CY 2020 amounted to P15.282 million while the total amount of taxes remitted per BIR returns amounted to P19.792 million or a discrepancy of P4.510 million.

Month	Withheld	Remitted	Variance
January	1,097,855.49	1,475,705.96	377,850.47
February	1,080,785.32	1,455,780.15	374,994.83
March	1,290,851.32	1,738,032.59	447,181.27

Month	Withheld	Remitted	Variance
April	957,628.25	1,378,164.69	420,536.44
May	969,475.18	1,459,233.43	489,758.25
June	978,041.50	1,391,542.28	413,500.78
July	977,726.21	1,345,278.04	367,551.83
August	1,023,542.71	1,366,968.55	343,425.84
September	1,074,586.79	1,340,350.26	265,763.47
October	1,013,412.53	1,446,904.23	433,491.70
November	1,927,945.89	2,526,054.31	598,108.42
December	2,889,725.47	2,867,906.21	(21,819.26)
Total	**15,281,576.66**	**19,791,920.70**	**4,510,344.04**

18.3 In addition, audit of the liability account Due to GSIS, PhilHealth and Pag-IBIG revealed that there were abnormal or negative balances as per ending balance of employees' SL as of December 31, 2020 amounting to P26,963.15, P13,396.47 and P2,048.65, respectively.

Subsidiary ledgers	No. Employees	Amounts
Due to GSIS	24	P (26,963.15)
Due to PhilHealth	31	(13,396.47)
Due to Pag-IBIG	3	(2,048.65)
Total		**P (42,408.27)**

18.4 Inquiry was made and Management commented that the negative balances on the employees' subsidiary ledgers will be subject to reconciliation.

18.5 Also, discrepancies were noted upon examination of the ending balances for the month of December 2020, between the total amount withheld per General Ledger and the total withheld per Schedule of Remittance submitted by the HRD, as follows:

December 2020	Withheld		Discrepancy
	General Ledger	Schedule of Remittance	
Due to GSIS	P 574,815.18	P 548,057.34	P 26,757.84
Due to PhilHealth	77,865.10	75,372.64	2,492.46
Due to Pag-IBIG	69,329.66	12,800.00	56,529.66
Total	**P 722,009.94**	**P 636,229.98**	**P 85,779.96**

18.6 The total amount withheld from employees' salary for GSIS, Philhealth and Pag-IBIG contribution for the month of December amounted to P722,009.94 while the total amount reported in the Schedule as provided by the HR Department submitted to this office was P636,229.98 or a discrepancy of P85,779.96.

18.7 Moreover, the remittances for the month of December cannot be validated due to lack of transactions recorded in eNGAS

December 2020	Remittances	
	General Ledger	Schedule of Remittance
Due to GSIS	No record	P 1,290,200.46
Due to PhilHealth	No record	150,746.71
Due to Pag-IBIG	No record	24,700
Total		**P 1,465,647.17**

18.8 It can be inferred from the above tables that there were discrepancies in the withholding of employees' contribution as recorded in the books compared to the schedule submitted to this Office.

18.9 Inquiry with the Management disclosed that they also observed the unusual difference recorded in the books and commented that reconciliation and necessary adjustment will be made if necessary.

18.10 **We recommended and Management agreed that Finance Department reconcile the abnormal balances of subsidiary ledgers and the difference noted between the General Ledger and the Schedule of remittance of employees for GSIS, Philhealth and Pag-ibig; and Reconcile the discrepancies noted between taxes withheld from salaries and remitted.**

B. Financial Audit – Regulatory Office

Restricted Fund

19. The restricted fund amounting to P103.774 million intended for the payment of future arbitrations was recorded as non-current asset contrary to paragraph 76 (d) of IPSAS 1, thus affecting the fair presentation of the account in the financial statements.

19.1 Paragraph 76 of IPSAS 1 states that *"An asset shall be classified as current when it satisfies any of the following criteria:*

(a) It is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;
(b) It is held primarily for the purpose of being traded;
(c) It is expected to be realized within twelve months after the reporting date; or
(d) It is cash or a cash equivalent (as defined in IPSAS 2), unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current.

19.2 The restricted accounts of MWSS-RO are funded as follows:

Date	Reference	Description	Amount Transferred
02/02/2017	PO02-002-17	Set-up of Restricted Fund for Arbitration sourced from LBP Regular Checking Account	P61,000,000.00
02/02/2017	PO02-006-17	Set-up of Restricted Fund for Arbitration reclassified from 117-LBP$ to Restricted Fund	15,075,652.06

Date	Reference	Description	Amount Transferred
		(290) - $302,796.90 @ P49.788, 182 days	
05/02/2019	PO05-001-19	Set-up of Restricted Fund for Arbitration sourced from LBP Regular Checking Account	25,000,000.00

19.3 As of December 31, 2020, the Restricted Fund account has a balance of P103.774 million. Upon request, the subsidiary ledger was not submitted. However, based on the confirmation received from the Land Bank of the Philippines, the balance of P103.774 million is composed of the following:

	Description		Balance as of December 31, 2020
1	High Yield Savings Account	P	25,390,163.94
2	High Yield Savings Account		63,384,748.06
3	High Yield Savings Account (Dollar Deposit)		14,998,808.20
	TOTAL	**P**	**103,773,720.20**

19.4 As per inquiry from Management, the restricted fund was established solely for future arbitrations. This is pursuant to Resolution No. 2016-038-RO decided during the Sixth Regular Meeting of the Board held on March 31, 2016.

19.5 The resolution stated that the financial impact of an arbitration case that the Concessionaires filed before the Appeals Panel against MWSS for disputing a water rate adjustment determined by the latter resulted in a remarkable increase in the budgetary requirement of the Regulatory Office on that given year.

19.6 Included in the resolution were the actual expenses during past year's arbitration proceedings, as follows:

Particulars	Year	Concessionaire	Cost in Million Pesos
Major Dispute – Extraordinary Price Adjustment (EPA)	1999	MWCI	23.14
Minor Dispute – cease and Desist Order; Special Transitory Mechanism & Accelerated EPA	2003	MWSI	7.23
Major Dispute – Event of Termination	2003	MWSI	98.77
Major Dispute – Rate Rebasing	2013	MWCI & MWSI	63.03

19.7 Indicated also in the said resolution is the fact that under Board Resolution 2015-013-RO, the MWSS Board, recognizing the need to maintain Reserved Fund, approved the inclusion in the RO CY 2015 Budget, an initial appropriation of P25 million with the intention to build-up the Funds up to P100 million level.

19.8 The resolution also provides guidelines for proper management and utilization of the account.

19.9 We understand the intention of the management for setting aside funds for future arbitrations, however, the classification of the funds as a non-current asset does not meet the criteria set under IPSAS 1. Moreover, COA Circular No. 2020-02 dated January 28, 2020 provides the definition of Restricted Fund, as follows:

Restricted Fund is the amount restricted by government corporations for authorized long-term plans except for liquidation of long-term debt.

As of December 31, 2020, there was no liability yet to be liquidated.

19.10 **We recommended and Management agreed that Accounting Section reclassify the restricted fund amounting to P103.774 million from Restricted Fund account to Cash and Cash Equivalents.**

Cash in Bank

20. Cash in Bank accounts included closed accounts of PNB Regular and PNB Motor Vehicle Financing Program (MVFP) / Multi-Purpose Loan Program (MPLP) accounts totaling P1.271 million due to non-reconciliation of the Cash in Bank accounts which casts doubt on the validity of the Cash in Bank contrary to paragraph 27 of IPSAS 1.

20.1 Paragraph 27 of IPSAS 1 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."*

20.2 Moreover, Section 74 of P.D. 1445 states that *at the close of each month, depositories shall report to the agency head, in such form as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that a reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.*

20.3 As of December 31, 2020, MWSS RO includes in its Cash in Bank balance the following PNB Regular and MVFP accounts:

Account Name	Account Code	Remaining Unreconciled Balance
Cash CIB-LC, C/A- PNB Regular	111-PNB1	P 1,242,351.30
Cash CIB-LC, C/A- PNB MVFP	111-PNB2	28,622.45
	TOTAL	**P 1,270,973.75**

20.4 Verification of the cash accounts revealed that these PNB accounts were closed and transferred to the LBP account on April 7, 2016.

20.5 On January 20, 2017, a confirmation reply from PNB was received and the reply came with a remark "Nothing to Report". In addition, the latest Confirmation Reply from PNB which was received on February 3, 2020 showed "NA" remarks.

20.6 As of the date of transfer, there were unreconciled balances in the total amount of P1.271 million between the balances per books and the actual bank balances. Since then, the Management continued reporting the unreconciled balances as PNB Regular and MVFP accounts in the financial statements.

20.7 These unreconciled balances have been the subject of audit observations in the CYs 2018 and 2019 Annual Audit Reports. To date, the audit recommendations to comply with Section 74 of PD 1445 to analyze and verify the unreconciled balance, then make the necessary adjusting entries were not yet implemented.

20.8 In view of the foregoing, we can say that the non-reconciliation and non-adjustment of cash in bank accounts raised doubt on the correctness of the cash in bank balance at year-end.

20.9 **We reiterated our previous years' recommendation for the Accounting Section to reconcile the cash in bank accounts and prepare the necessary adjusting journal entries.**

20.10 The Management explained that there were series of reconciliation done during 2016-2018 and they managed to reduce the amount as to how much it is now based on the available data. The problems are the 1997 to 2006 data, during those years, the Accounting Department uses manual processing of Disbursement Vouchers and the generation of reports. Thus, according to the Management, there were no backups found in the system.

20.11 The Management pointed out that the reports, working papers, and source documents were already transmitted to the COA for post audit. The Management further explained that they have only four (4) personnel in the accounting and with the present work arrangements due to the pandemic, it is hard for them to reconcile the accounts of more than 15 years old and perform their daily tasks at the same time, further hiring a Contract of Service (COS) staff solely for that purpose is uneconomical.

20.12 As a rejoinder, the documents submitted by the Management in our Office are available upon request, the copies of the documents can be provided by the Commission following the requirements stated in COA Circular 2013-006. However, to date, there were no requests received from the Management. We maintain our position that Management require the Accounting Section to exert more effort to reconcile the balance and make the necessary adjusting entry to present fairly the cash account in the financial statements.

Due from Officers and Employees

21. Lack of monitoring and appropriate action on the Notices of Disallowance (ND) with issued Notices of Finality of Decision (NFD) amounting to P78.509 million resulted to non-recovery of amounts due from persons liable for the said NDs contrary to Section 2.1 and Annex C of COA Circular No. 2020-002 and Section 7 of COA Circular No. 2009-006.

21.1 Section 2.1 of COA Circular No. 2020-002 dated January 28, 2020 states that *The Government Corporations (GCs) shall recognize their transactions in accordance with the updated Revised Chart of Accounts (RCA) prescribed herein.*

21.2 Annex C of this said Circular provides the description of all the accounts:

> Receivables-Disallowances/Charges under "Other Receivables" with RCA Code "10399010."- *This account is debited to recognize the amount of disallowances/charges in audit due from public/private individuals/entities which have become final and executory. This account is credited for settlement of disallowances/charges, and/or adjustments.*

21.3 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 . . .*
>
> *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*

21.4 We noted that the management recognized the account "Due from Officers and Employees – Others" amounting to P78.509 million pertaining to 48 NDs with issued NFD.

21.5 The Commission Secretariat of the Commission Proper Adjudication and Secretariat Support Services Sector (CPASSSS), Commission on Audit, issued an NFD dated January 24, 2017 pertaining to COA Decision No. 2015-040 dated January 30, 2015 which affirmed COA Corporate Government Sector Cluster-B Decision No. 2012-002 dated June 19, 2012 sustaining 48 Notices of Disallowance on the payment of allowances, bonuses, incentives and other benefits to the officials, employees, and members of the Board of Trustees of the MWSS-RO, in the total amount of P82.242 million.

21.6 The NFD was received by this Office on February 9, 2017 and was then served thru personal service and registered mail to persons liable still employed by MWSS-RO and to those who are no longer connected with the Management.

21.7 The subject COA Decision was resolved as closed and terminated by the Supreme Court En Banc in a Resolution (Entry of Judgment) dated July 26, 2016 with G.R. No. 224240.

21.8 Further, on December 28, 2016, a COA Order of Execution (COE) was issued by Legal Services Sector, Office of the General Counsel, Commission on Audit, which modified the amount from P82.242 million to P78.509 million. However, the COE was inadvertently transmitted to the MWSS Corporate Office on January 12, 2017. The matter was rectified on February 7, 2017 thru a transmittal by the MWSS Corporate Office to the MWSS Regulatory Office which urged expedient action thereon.

21.9 In January 2018, the MWSS-RO recognized the entire amount as Due from Officers and Employees account instead of the Receivables-Disallowances/Charges account.

21.10 We have requested the Management to submit an explanation on the non-collection or non-execution of the COA Order of Execution, however, to date, there was no response submitted to our Office. There were no collections made for the subject disallowances. Furthermore, it was noted that several employees who were identified as persons liable under the said disallowances have already been separated from the Agency without the settlement of their accounts.

21.11 The Management also lacks the Manual of Policy for the collection of NDs that are final and executory which hindered the prompt recovery from the persons liable.

21.12 As per inquiry from Management, it is due to the absence of any indication on the individual liability in the subject NDs that they were not able to specify an amount to be imposed to the retiring/separating employees, who are likewise identified among the persons liable. They could not find a legal basis to withhold their terminal pay. They maintain that they do not know how to implement the COE.

21.13 This inaction on the part of Management is tantamount to the patent disregard of the Order of the Commission.

21.14 Common sense and exercise of due diligence would compel the withholding of the terminal pay of recipient employees for an amount that is equivalent to the amount they had actually received pursuant to the principles of unjust enrichment and solutio indebiti.

21.15 **We recommended that Management require:**

a. **Accounting Section to maintain and submit the subsidiary records of the persons liable for the subject NFD amounting to P78.509 million;**

b. **Accounting Section to reclassify the Due from Officers and Employees account amounting to P78.509 million to Receivables – Disallowances/Charges account;**

c. **Administration Department to formulate a policy on the settlement of disallowances with issued NFDs; and**

d. **The Chief Regulator and the Cashier to cause the immediate recovery of the disallowances with issued NFD.**

21.16 The Management agreed to comply with our audit recommendations. However, the COE does not indicate the specific liabilities of the individuals in the NDs. Likewise, the COE lacked the necessary documents in support of the same. In this regard, the Management requests for the Audit Team to provide the complete breakdown of the amounts due from the employees pursuant to the NDs.

21.17 Upon detailed analysis of the COE, we have noted that the amounts indicated per COE are the same amounts that were indicated in the initial NDs issued by this Office. Likewise, the NDs initially issued have information as to the individual liabilities of the Payees that the Management can rely upon.

Due from Officers and Employees

22. The Due from Officers and Employees account totaling P1.301 million is not supported by subsidiary records casting doubt on the validity and accuracy of the account and may result to non-collection of government funds contrary to IPSAS 1, Presidential Decree No. 1445 and COA Circular No. 2016-005.

22.1 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.*

22.2 Paragraph 27 of IPSAS 1 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.”

22.3 Section 114 of P.D. 1445 states that:

Section 114 The general ledger.

1. The government accounting system shall be on a double entry basis with a general ledger in which all financial transactions are recorded.

2. Subsidiary records shall be kept where necessary.

22.4 Also, Section 111 thereof indicates the responsibility of the agencies in the maintenance of accounts, to wit:

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… x x x.

22.5 Verification of the accounts of MWSS-RO for CY 2020 revealed that the subsidiary records for the following receivable accounts amounting to P1.301 million were not maintained:

Account Name	Balance as of December 31, 2020 without subsidiary records
Due from Officers and Employees – Health Insurance	P 942,839.94
Due from OE – MVFP Insurance	75,614.55
Other Receivables	283,004.27
TOTAL	**P 1,301,458.76**

22.6 As per inquiry with the Chief Corporate Accountant, specific details as to the amount and name of the debtors were not maintained in their Peachtree Accounting System. Majority of these amounts were recorded before the establishment of this system.

22.7 The continued inaction of the management to establish and maintain subsidiary ledgers for various receivable accounts precluded the validation of these accounts and deprived the government of additional funds that could be utilized.

.

22.8 **We reiterated our recommendation for:**

a. **Finance Section to analyze and reconcile the subject receivables accounts amounting to P1.301 million;**

b. **Accounting Section to maintain subsidiary records of all the receivable accounts; and**

c. **Administration Department to formulate a policy/guideline for the collection of dormant accounts.**

22.9 The MWSS RO remains steadfast in its efforts to reconcile the subject receivables accounts amounting to P1.301 million, as recommended by the COA. However, the MWSS RO Finance Section lacks the manpower to create a separate subsidiary ledger that will monitor all accounts receivable on a per transaction basis. Nevertheless, we are hoping to resolve this deficiency through the approval and subsequent implementation of our proposed Rationalization Plan.

22.10 As a rejoinder, we retain our recommendation that the Accounting Section maintain and submit the subsidiary records as required under Section 114 of P.D. 1445. Moreover, 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.

C. Other Audit Observations – Corporate Office

New Centennial Water Sources – Kaliwa Dam Project

23. MWSS proceeded with the implementation of the New Centennial Water Source Kaliwa Dam Project (NCWS KDP) despite the non-completion of the application of the necessary permits from the government agencies that may result to the cancellation of the Environmental Compliance Certificate (ECC) pursuant to the conditions and restrictions of the Department of Environment and Natural Resources (DENR).

DENR Conditions for the issuance of the ECC includes the following:

> *With the issuance of this ECC, you are expected to implement measures presented in the EIS intended to protect and mitigate the project's adverse impacts on community health, welfare and environment. However, you* ***may proceed with the project implementation only after securing necessary permits from other pertinent Government agencies. Environmental considerations shall be incorporated in all phases and aspects of the Project.*** *xxx*

ENVIRONMENTAL MANAGEMENT CONDITIONS

All commitments, appropriate mitigating/enhancement measures and monitoring requirements contained in the approved EIS particularly in the Environmental Management and Monitoring Plan (EMP/EMoP) shall be instituted and strictly implemented by the proponent throughout the project implementation *including the following:*

1. *Conduct an effective Information, Education and Communication (IEC) Program xxx*

   A report of program implementation shall be submitted to EMB Central Office (EMB-CO) as part of the second-semester Compliance Monitoring Report;

2. ***Submit a duly signed Memorandum of Agreement (MOA) with the Local Government Units (LGUs) for the Social Development Program six (6) months upon receipt of this Certificate;***

3. *Implement a Comprehensive Social Development Program (SDP), Ancestral Domain and Cultural Heritage Sustainable Development Plan (ADCHSDP) and Cultural Heritage Protection Plan (CHPP). The ADCHSDP and CHPP shall be updated semiannually in consultation with the National Commission on Indigenous Peoples (NCIP).* ***Submit a separate report together with the CMR to the EMB-CO and copy furnished EMB Region IV A on a semi-annual basis;***

4. ***Submit NCIP approved Indigenous Peoples Development Plan to the EMB-CO at least one (1) year prior to the start of project construction/implementation;***

5. *Establishment of a reforestation and carbon sink program using endemic/indigenous species to offset greenhouse gas (GHG) emissions of the project in line with the DENR's thrust for GHG emissions reduction programs****. The program shall be submitted for approval to EMB-CO within 6 months from receipt of this Certificate. Copy of the approved reforestation program shall be furnished to EMB Region IV A;***

xxx

6. *Submit detailed waste management program xxx to EMB-CO and EMB Region IV A within six (6) months prior to project implementation.* ***Proof of implementation shall be submitted together with the CMR.***

7. ***Conduct and submit actual inventory and assessment of threatened species that may be affected during clearing operations*** *including maps showing the project location relative to the protected area boundaries and management zones, location of observed threatened species; land cover map indicating the various habitat types*

*and location of management zones relative to the area for vegetation **prior to the conduct of the Detailed Engineering Design (DED);***

8. *Develop an Integrated Watershed Management Plan (IWMP) in coordination with the DENR Region IVA and the Protected Area Management Board (PAMB) and submit the same within six (6) months prior to project implementation to EMB-CO. **Proof of IWMP implementation shall be submitted together with the CMR.***

xxx

GENERAL CONDITIONS

***18. The plant operations shall conform with the provisions of environmental laws regulations and their Implementing Rules and Regulations** xxx*

19.1 A readily available and replenishable Environmental Guarantee Fund (EGF) to cover the following expenses:

xxx

*19.2 **Establish a Multipartite Monitoring Team (MMT) in accordance with DAO 2017-15 and DAO 2018-18. The MMT shall primarily oversee the compliance of the proponent with the Environmental Management Plan/Environmental Monitoring Plan as well as the conditions of its ECC;***

xxx

*The amount and mechanics of the EGF, EMF, and the establishment of the MMT shall be determined by EMB-CO and the proponent in coordination with EMB Region IVA through a **Memorandum of Agreement (MOA) which shall be submitted at least 1 year prior to project construction/implementation.***

20. Creation of an Environmental Unit (EU) within 60 days from receipt of this Certificate that shall competently handle the environment-related aspects of the project.

RESTRICTIONS

22. No Activity shall commence until the proponent satisfied the following conditions:

a. 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;

b. *Necessary certifications from the National Commission on Indigenous Peoples (NCIP) prior to project implementation;*

c. *Disposal sites of excavated materials have been identified, duly covered by agreement/s and have been permitted in accordance with the law. Proof of compliance shall be filed with the Regional Office having jurisdiction over the disposal area and shall be without prejudice to environmental safeguards that may be prescribed as warranted. xxx*

23.1 Article 9 of the Preferential Buyer's Loan Agreement provides that:

> 9.1 ***This Agreement shall become effective upon the satisfaction of the following conditions:***
>
> *xxx*
>
> ***(2) The Lender has received certified true copy of the Environmental Compliance Certificate issued by the authorized governmental agency of the Borrower's Country.*** *(emphasis supplied)*

23.2 The contract between MWSS and China Energy Engineering Corporation, Ltd. (CEEC), further provides that its effectivity is

> *x xx* ***contingent upon the effectivity of the loan agreement for the project*** *and that no liability shall attach on the part of the MWSS in case the loan agreement is not perfected or declared effective. (emphasis supplied)*

23.3 Section 3.1.1 of COA Circular 2009-001 dated February 12, 2009 provides that:

> *Within five (5) working days from the execution of a contract by the government or any of its subdivisions, agencies or instrumentalities, including government-owned and controlled corporations and their subsidiaries, a copy of said contract and each of all the documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned. xxx*

23.4 On November 20, 2018, MWSS and the Export-Import Bank of China (China Eximbank) entered into a Preferential Buyer's Credit Loan Agreement for a loan facility in the aggregate principal amount not exceeding US$211.215 million for the implementation of NCWS KDP. The Loan Agreement provided that one of the conditions for its effectivity is a certified true copy of the Environmental Compliance Certificate (ECC) issued by the authorized governmental agency of the Borrower's Country.

23.5 MWSS applied for the required ECC before the DENR and on October 11, 2019 obtained ECC-CO-1907-001 for the implementation of the Project.

23.6 On November 13, 2019, MWSS issued a Notice to Proceed to China Energy Engineering Corporation, Ltd. (CEEC) requiring the latter to commence work on the project. On even date, MWSS and CEEC entered into a Contract Agreement for the execution and completion of the NCWS KDP, with a provision that the effectivity of the contract is contingent upon the effectivity of the loan agreement for the project.

23.7 On November 26, 2019, MWSS paid Management fees amounting to P32.446 million to China Eximbank and on March 20, 2020, MWSS availed P1.544 billion from the loan facility.

23.8 Based on the submitted CY 2020 Report on Projects, Programs and Activities (RPPA), MWSS reported that the Detailed Engineering and Design (DED) Phase of the Project was 92.67% complete.

23.9 In view of MWSS implementation of NCWS KDP, the audit team requested from MWSS to submit documents showing compliance to the conditions and restrictions of the DENR thru the ECC. However, on May 20, 2021, Management simply provided a checklist or a Compliance Monitoring Report (CMR) without any supporting documents (*e.g.* permits) to show compliance to the ECC.

23.10 It bears mention that the DENR explicitly provided in the issued ECC that MWSS may only proceed with the project implementation after securing the necessary permits from pertinent government agencies and that MWSS should incorporate the environmental considerations in all the phases and aspects of the NCWS KDP.

23.11 In the Commercial Contract, the definition of the Contract and the Works were provided as follows:

> The ***Contract*** is the contract between the Procuring Entity and the Contractor to execute, complete and maintain the ***Works***.
>
> xxx
>
> ***The Works consists of complete design, construction, and the commissioning of a dam along Kaliwa River*** xxx (emphasis supplied)

23.12 It can be gleaned from the above provisions of the Commercial Contract that the cited **project implementation** in the ECC pertains to the **Works** described in the contract which includes the Detailed Engineering and Design and Construction of the NCWS KDP.

23.13 Important to note is that the application of MWSS for the ECC necessary for the implementation of the NCWS KDP is without qualification. As such, project implementation as cited in the ECC refers to the entirety of the activities involved consisting of (1) Detailed Engineering and Design and (2) Construction. Clearly, there are various conditions and restrictions MWSS needs to hurdle before any semblance of project implementation can be initiated the least of which is the Detailed Engineering and Design which to date is almost done.

23.14 In our last year's finding, we recommended that Management prioritize the completion of the requirements including the conditions and restrictions set forth in the ECC. Management in its reply, explained that the term "project implementation" as used in the certificate and during the EIA Process is considered to mean the "project construction", which is the second stage of the project (with the project under a two-phase Design-and-Build Scheme) to be commenced only once the Notice to Commence Construction (NTCC) is issued and that the interpretation is self-evident in the 21 conditions and 4 restrictions in the ECC.

23.15 Management also informed that they have yet to begin construction activities and that the Project is still in its Design Phase, with detailed engineering design activities on-going including the FPIC activities, in coordination with the NCIP.

23.16 One of the environmental conditions of DENR is for MWSS to conduct and submit actual inventory and assessment of threatened species that may be affected during clearing operations including maps showing the project location relative to the protected area boundaries and management zones, location of observed threatened species; land cover map indicating the various habitat types and location of management zones relative to the area for vegetation ***prior to the conduct of Detailed Engineering and Design (DED).***

23.17 In addition, the DENR imposed restrictions to MWSS and explicitly provided that ***no activity shall commence until the satisfaction of the following conditions:***

a. *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;*

b. *Necessary certifications from the National Commission on Indigenous Peoples (NCIP) prior to project implementation;*

c. *Disposal sites of excavated materials have been identified, duly covered by agreement/s and have been permitted in accordance with the law. Proof of compliance shall be filed with the Regional Office having jurisdiction over the disposal area and shall be without prejudice to environmental safeguards that may be prescribed as warranted. Likewise, a copy of which shall form of the requirement under Condition 7 hereof; and*

d. *The appropriate instrument(s) (e.g. lease agreement, deed of absolute sale, etc.) shall be secured.*

23.18 The ECC is a conditional certificate, where MWSS needs to comply 21 conditions and 4 restrictions that are subject to the approval/evaluation of DENR. The possible cancellation of the ECC, if violations thereof are with merit, will affect the effectivity of the Loan Agreement with China Eximbank and the Commercial Contract with CEEC.

23.19 Further, MWSS has not submitted the duly authenticated copies of the Compliance Monitoring Report, DENR correspondences and the following pertinent reports as required by the DENR upon receipt of the ECC:

.

a. Memorandum of Agreement (MOA) with the Local Government Units (LGUs) for the Social Development Program (within 6 months upon receipt of ECC);
b. Copy of the approved reforestation program (within 6 months from receipt of ECC);
c. Copy of the creation of an Environmental Unit (EU) required to be submitted to DENR (within 60 days from receipt of the ECC).

23.20 Finally, we recognized the importance of this Project to the government with the objective of ensuring water security and increasing the raw water supply to meet future potable water demand of Metro Manila and reduce dependence on the Angat Dam. However, MWSS should also comply with all the conditions and restrictions of the DENR for the implementation of the Project, in order to protect and mitigate the Project's adverse impacts on community health, welfare and the environment.

23.21 **We recommended that Engineering and Technical Operations Group secure the necessary permits as required by the DENR for the implementation of NCWS KDP and the submission of the Compliance Monitoring Report together with the supporting documents.**

Management commented that it had submitted the following to the EMB :

a. A Compliance Monitoring Report for (January – June 2020) be submitted to EMB Central Office (EMB-CO) as part of the second semester;
b. Draft of Integrated Development Plan;
c. Reforestation and Carbon Sink Program;
d. Detailed Waste Management Plan;
e. Inventory Assessment of Threatened Species;
f. Integrated Kaliwa Watershed Management Plan;
g. Creation of Environmental Unit

23.22 However, the Compliance Monitoring Report was not supported with the complete documents (necessary permits) and all the submitted documents are in photocopied forms.

23.23 We maintain our position that MWSS secure the necessary permits and submit the duly authenticated copies of the Compliance Monitoring Report and its supporting documents to establish proper compliance with the requirements of the DENR.

Angat Dam Dyke Strengthening Project (ADDSP) Fund

24. Failure to return the remaining Angat Dam Dyke Strengthening Project (ADDSP) Fund amounting to P24.056 million to the National Government (NG) and non-submission of the ADDSP Fund reportorial requirements to Department of Budget and Management (DBM) and Department of Public Works and Highways (DPWH) for the funds transferred to National Power Corporation (NPC) and Provincial Government of Bulacan (PGB) totaling P529.550 million have impaired the accountability for public funds contrary to the provisions of the Memorandum of

Agreement between MWSS and NPC and PGB and pertinent provisions of the 2020 General Appropriations Act (GAA).

24.1 Sections 10 and 11 of the General Provisions of General Appropriations Act (GAA) for FY 2020 provides that:

> *Reversion, closure, and Transfer of Balances of Special Accounts, Fiduciary or Trust Funds, Revolving Funds, and Unauthorized Accounts. Departments, bureaus, offices, and instrumentalities of the National Government, including Constitutional Offices enjoying fiscal autonomy and SUCs are mandated to close and revert all balances of Special Accounts, Fiduciary or Trust Funds, and Revolving Funds to the General Fund in any of the following instances: (i.) when there is no legal basis for its creation; (ii) when their terms have expired; or (iii)* ***when they are no longer necessary for the attainment of the purposes for which funds were established****. (emphasis ours)*
>
> *xxx*
>
> *Said agencies shall likewise transfer to the National Treasury all balances of unauthorized accounts with any banking institution. Unauthorized accounts shall refer to cash accounts balances maintained by agencies without legal basis or those while legally authorized are maintained outside of the National Treasury in violation of law.*
>
> *In like manner, departments, bureaus, offices, and instrumentalities of the National Government, including Constitutional Offices enjoying fiscal autonomy and SUCs and GOCCs shall post on their respective official websites information relating to public funds deposited, maintained, and invested by them with any banking or financial institution which shall include, but not limited to the following: (i) name of the banking or financial institution/s where public funds are deposited, maintained or invested; (ii) specific income or fund sources; (iii) legal basis for depositing, maintaining or investing said income/fund source/s with the bank/s or financial institution/s; (iv) allowable uses/purposes of the income or fund; (v) monthly balances of each account or fund; and (vi) such other pertinent information as may be reasonably required to be posted by the agency concerned on its website"*

24.2 The Memorandum of Agreement (MOA) between MWSS and NPC and PGB relative to the implementation of ADDSP laid the responsibilities of the MWSS which include, among others, that:

> *The MWSS shall:*
> *xxx*
>
> *a. Monitor the implementation of the Package 2/Package 4 of ADDSP through its Engineering Department.*
> *b. Provide and submit to DBM copies of the project monitoring, financial accomplishment and liquidation reports that the NPC/PGB submits to MWSS pursuant to this MOA.*

c. *Submit to DPWH and DBM the Monthly Physical and Financial Accomplishment Report submitted by NPC/PGB. xxx*

24.3 The ADDSP is one of the MWSS projects to rehabilitate Angat dam and dyke to ensure its stability and safety to withstand the potential risk posed by possible seismic activity associated with the West Valley Fault. The MWSS received the amount of P553.300 million from the Bureau of the Treasury on April 29, 2015 under Special Allotment Release Order (SARO) No. F-12-01569 and NCA No. NCA-BMB-F-12-0025139 to finance Contract Packages 2 and 4 of the ADDSP, as follows:

Contract Package	Implementing Agency	Description	Cost (in million)
2	National Power Corporation (NPC)	Instrumentation (Flood Forecasting and Warning System on Dam Operation)	P 260.910
4	Provincial Government of Bulacan (PGB)	Flood Control Protection Works (downstream of Angat)	292.390
	Total		**P 553.300**

24.4 MWSS executed a Memorandum of Agreement (MOA) with the Implementing Agencies namely, PGB on March 22, 2016 and NPC on May 3, 2016 for the subject transfer of fund and its implementation.

24.5 Accordingly, the MWSS transferred P292.390 million to the PGB and P237.160 million to the NPC. The remaining ADDSP fund amounting to P23.750 million is held-in-trust by MWSS under LBP time deposit.

24.6 Considering that the ADDSP has already been completed, MWSS should have required the Implementing Agencies to submit the liquidation and accomplishment reports as agreed upon and subsequently, submit the accomplishment reports of NPC and PGB to DPWH and DBM.

24.7 Inquiry with the Engineering Department disclosed that only the NPC submits accomplishment reports to MWSS and said that they already sent letter to the PGB requesting submission of said reports, however, to date, no submission was received. They added that the reports submitted by NPC have not been transmitted to the DPWH and DBM, hence, not compliant with the provisions of the MOA.

24.8 In addition, inquiry with the Management disclosed that to date, the ADDSP fund is still in the custody of MWSS in the amount of P24.560 million, the increase was due to the accumulation of interest income through the years.

24.9 In its letter dated February 26, 2020, MWSS requested from DBM the use of the unutilized balance of P23.750 million to cover the reimbursement to the Public-Private Partnership (PPP) Center for the cost of project development of the New Centennial Water Source – Kaliwa Dam Project due to the completion of the ADDSP.

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24.10 However, the DBM in its reply dated December 16, 2020, denied the request of MWSS to use the unutilized fund of P23.750 million for the reimbursement because the purpose indicated in the issued SARO and NCA is different from the requested activity. As such, the said fund should revert to the Bureau of the Treasury.

24.11 In addition, DBM mentioned that MWSS was not able to submit budget proposal for FY 2020 for the reimbursement in view of the late submission by the PPP of documents evidencing the expenses. While FY 2021 General Appropriations Bill has been approved and waiting for the signature of the President of the Philippines, the DBM recommended that MWSS to properly include the request of reimbursement in the FY 2022 budget proposal observing the usual budgeting rules and regulation.

24.12 The non-submission of the accomplishment and liquidation reports hinders the National Government to account the disbursement of ADDSP fund by the Implementing Agencies and to monitor the status of implementation of the project.

24.13 **We recommended and Management agreed to require:**

a. Finance Department to immediately return the remaining ADDSP fund to the NG amounting to P23.750 million including interest earned;

b. Engineering and Technical Operations Group to immediately send a demand letter to PGB for the submission of the Liquidation Reports and Accomplishment Reports of the ADDSP Funds amounting to P292.390 million; and

c. Engineering and Technical Operations Group to immediately submit the reportorial requirements of DBM and DPWH for the ADDSP Fund amounting to P529.550 million.

Advances to Contractors

25. Non-monitoring of the Advances to Contractors resulted to the non-recoupment of the advances totaling P278.402 million contrary to RA No. 9184.

25.1 Paragraph 5.3 Annex E, of the RIRR of RA No. 9184 provides that:

The procuring entity shall deduct the following from the certified gross amounts to be paid to the contractor as progress payment:

a) Cumulative value of the work previously certified and paid for.
b) Portion of the advance payment to be recouped for the month.
c) Retention money in accordance with the condition of contract.
d) Amount to cover third party liabilities
e) Amount to cover uncorrected discovered defects in the works.

25.2 Records showed that out of the total accumulated balances of the contractors for CY 2020 amounting to P2.150 billion, P278.402 million or 12.95% of the account balance remained unrecouped/dormant since January 2013 consisting of mobilization costs amounting to P292.304 million and negative balances for prepaid material cost of P13.901 million. It should be noted that the projects undertaken by the contractors were already finished several years ago, hence the advances should have been recovered already.

25.3 This has been raised in the prior years' Annual Audit Reports, but until now, the said amount has not been recovered. The management explained that the responsible employees who processed these Contractors payments have already been separated and/or retired from service.

25.4 They added that they have exerted efforts to bill some of the contractors whose addresses were traced from the internet and former records and they will continue to give their best effort to trace not only the contractors but also the people who may have knowledge of these unresolved issues.

25.5 However, upon verification with the books, there was no adjustment made to reconcile the dormant accounts as of CY 2020.

25.6 Inquiry was made to the management for the dormant accounts but they are not aware of the observation since it was handled by previous managers. Also validation of the Agency Action Plan and Status Implementation (AAPSI) from CYs 2018 to 2020 revealed that this observation was not included in the reports. Since then, no action was taken for the dormant accounts up to CY 2020.

25.7 Non-monitoring of these Advances to Contractors resulted to the non-recoupment of advance payments which should have been deducted from payments to the contractors concerned.

25.8 **We recommended and Management agreed to require:**

a. **Legal Services Department to send demand letters to all contractors with outstanding balances; and**

b. **Finance Department to analyze the advances to contractors account, determine the causes of the negative balances, and take up the necessary adjustments to reflect the correct and accurate book balances.**

25.9 Management commented 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 balance of Advances to Contractors.

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Cash Advances

26. Cash Advances amounting to P10.207 million were granted to employees despite unliquidated/unsettled previous cash advances contrary to Section 89 of P.D. 1445.

26.1 Section 89 of Presidential Decree 1445 provides the limitations on cash advance, to wit:

> *No cash advance shall be given unless for a legally authorized specific purpose. A cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served. No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.*

26.2 Audit of the Cash Disbursing Officer accounts for CY 2020 disclosed that there were cash advances granted to Special Disbursing Officers (SDO) despite having unliquidated/unsettled previous cash advances.

26.3 Inquiry with Management revealed that for the cash advance of SDO 1 of Finance Department, they admitted that overlapping of the cash advances were made due to the pandemic and urgency of the purpose of the account. For SDO 2 of Finance Department cash advances, Management explained that they have the same purpose for the two cash advances which are for the MWSS Anniversary celebration.

26.4 Verification showed that the cash advances were indeed for MWSS Anniversary celebration, however, they have different activities. The first cash advance of P354,000 pertains to MWSS Anniversary celebration in their Office, whereas the second cash advance of P74,800 pertains to tree planting activities, hence, the grant of cash advance to SDO 2 of Finance Department overlapped.

26.5 The grant of additional cash advances to SDOs despite having outstanding cash advances may result to possible improper use of the public funds contrary to Section 89 of PD 1445. The overlapping of cash advances could have been avoided if the Management, as a policy, required the submission of the Certification from Accountant that previous cash advances have been liquidated and accounted for in the books, as required in Section 1.1 of COA Circular No. 2012-001 dated June 14, 2012.

26.6 **We recommended and Management agreed that Finance Department require the Accountant to issue a Certificate that the previous cash advances have been liquidated and accounted for in the books in compliance with Section 1.1 of COA Circular No. 2012-001, to ensure that Special Disbursing Officers are granted cash advances only after the liquidation or settlement of their previous cash advances in compliance with Section 89 of P.D. 1445.**

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26.7 The Management further commented that an internal policy which includes requiring the issuance of Certification as recommended will be designed and proposed for approval to strengthen the controls relative to cash advances

Customers' Deposit

27. Cash receipts from bonds amounting to P620,053.77 were not refunded to the lessees even after the lease term contrary to the Contract of Lease.

27.1 Contract of Lease in the form of Statement of Account signed by MWSS and the lessee includes a footnote to wit:

> *A security deposit of Php xxx shall be paid in cash upon signing of the contract. The said deposit shall answer for whatever damages that maybe incurred arising from the use of the facility.* ***The deposit shall be refunded after the inspection provided there is no loss or damages incurred****.* (emphasis ours)

27.2 Analysis of the subsidiary ledger disclosed that there are cash bonds reported under Other Deferred Credits account, despite the expiration of the lease term.

Particulars	2020	2019	Total
Collected	**P** 625,929.01	**P** 26,124.76	**P** 652,053.77
Less: Refunded	30,500.00	1,500.00	32,000.00
Not refunded	**P 595,429.01**	**P 24,624.76**	**P 620,053.77**

27.3 The Management explained that the amounts pertaining to cash bond outstanding under the Other Deferred Credits account are the lessee's choice not to withdrew the bonds, even if the actual use of the property is completed, for the utilization on their future rentals.

27.4 Further verification with the Finance Department disclosed that they haven't established a policy with regards to proper action to be taken if the purpose of the deposit has already been served. The Finance Department has raised this concern verbally to Operations Support Department who is in charge of the rentals of MWSS properties.

27.5 MWSS is not compliant with the Contract of Lease and lacks policy for the receipt and refund of cash bonds.

27.6 **We recommended and Management agreed that Finance Department immediately refund the cash bonds to the lessees amounting to P620,053.77 in accordance with the contract of lease.**

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Gender and Development - Corporate Office

28. The CY 2020 GAD Plan and Budget (GPB) of P10.753 million or 0.22 per cent of the DBM – approved Corporate Operating Budget (COB) of P4.938 billion is way below the required minimum five per cent (5%) or P246.899 million and prevented the attainment of the GAD objectives contrary to PCW-NEDA-DBM Joint Circular No. 2012-01.

Likewise, non-implementation of the GAD activities and unutilized GAD Budget amounting to P10.692 million or 99.44% of the total GAD budget did not conform to PCW Memorandum Circular No. 2020-03 dated April 27, 2020.

28.1 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.*

28.2 Section 4.1 of PCW Memorandum Circular No. 2020-03 dated April 27, 2020 provides that:

> *All national government agencies and instrumentalities are enjoined to review and revise, as necessary, their FY 2020 Gender and Development Plan and Budget to implement measures to address gender issues and concerns arising from the unequal status of their women and men stakeholders due to the COVID-19 situation. Such measures should be in line with their respective agency mandates, Republic Act No. 9710 or the Magna Carta of Women and the Bayanihan to Heal As One Act.*

28.3 Also, Section 4.5 of the same Memorandum Circular states that:

> *Agencies, whether with an endorsed or unendorsed GPB, shall reflect all changes made in the original FY 2020 GPB (e.g., cancellation/postponement of a GAD activity due to the Enhanced Community Quarantine or implementation of a new GAD activity to respond to the COVID-19 situation) in their GAD Accomplishment Report (GAD AR). Agencies shall also fill-out Column 10 of the GAD AR form to indicate deviations from the identified GAD activities and targets, if applicable*

28.4 We noted that the CY 2020 GAD GPB of MWSS amounting to P10.753 million is only 0.22 per cent of the approved COB amounting to P 4.938 billion which is way below the minimum required five per cent (5%) or P246.899 million pursuant to PCW-NEDA-DBM Joint Circular No. 2012-01.

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28.5 In addition, we noted that the Annual Budget of MWSS CO posted in the PCW Tool presented an amount of P215.000 million. However, the amount submitted is contrary to the approved budget for GAD which is P10.753 million only.

28.6 Inquiry was made with Management but they did not give a direct response as to why the budget has always been below the minimum threshold as prescribed by PCW-NEDA-DBM Joint Circular No. 2012-01. Also, the Management cannot provide the reason for the basis of the submitted MWSS CO budget amounting to P215.000 million.

28.7 Paragraph 1.2.2.1 of Memo PCW Memorandum Circular 2020-05 dated September 11, 2020 provides that:

GPBs that do not meet the minimum 5% requirement shall not be reviewed nor endorsed by PCW.

28.8 Summary of the GAD Actual Results for CY 2020 submitted to PCW with details of the total utilization of the budget and status of implementation of each activity is presented below.

GAD Programs and Projects (PAPs)	Actual Results	Approved Budget	Actual Cost	Unexpended Balance	Remarks
Participation in different programs/symposium/training/seminars featuring women's rights contribution in conservation and management of domestic water supply	5 female and 2 male attended a webinar series on Gender-Based violence	142,400.00	18,500.00	123,900.00	Partially Implemented
Gender Equality and Women Empowerment Training focusing on the women and men's rights including those undertaken in project planning, programs and projects of MWSS like New Centennial Watersource Kaliwa Dam Project, Operational Umiray-Angat Transbasin Project, Ipo Watershed, Angat Watershed and La Mesa Watershed	2 Male and 4 female have attended a Webinar Training on using GMEF Tool and HGDG	308,000.00	5,196.00	302,804.00	Not Implemented
Engagement of Indigenous People (Dumagats) in watershed reforestation under the Annual Million Tree Challenge to define the role of men and women in the conservation and protection of our forest using/adopting the HGDG tool.	The imposition of Community Quarantine Lockdowns affected the schedules and the utilization of funds were used as Covid-Response Emergency Fund remitted to the DOF.	145,200.00	0	145,200.00	Not Implemented
Bantay Gubat Programs for GAD Orientation for 2 days-60 male and 50 female participants in the Bantay Gubat Program for GAD Orientation for 2 days.	The imposition of Community Quarantine Lockdowns affected the schedules and the utilization of funds were used as Covid-Response Emergency Fund remitted to the DOF.	153,000.00	0	153,000.00	Not Implemented

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GAD Programs and Projects (PAPs)	Actual Results	Approved Budget	Actual Cost	Unexpended Balance	Remarks
Provision of Livelihood training programs for Bantay-Gubat personnel (Handcrafts of Novel Items e.g. Bamboo ashtray, etc.)	The imposition of Community Quarantine Lockdowns affected the schedules and the utilization of funds were used as Covid-Response Emergency Fund remitted to the DOF.	144,100.00	0	144,100.00	Not Implemented
Gender sensitivity training, GAD orientation on responsiveness training and solo parenting seminar for MWSS-CO officials and employees	The imposition of Community Quarantine Lockdowns affected the schedules and the utilization of funds were used as Covid-Response Emergency Fund remitted to the DOF.	326,336.00	0	326,336.00	Not Implemented
Training/Seminar on leadership for executives/managerial/second level supervisor.	All employees and personnel have attended the training discussion	1,275,000.00	36,781.61	1,238,218.39	Partially Implemented
Construction of a Multi-Purpose Gender and Development Office with complete facilities intended for Women, Children, Elderly and Persons with Disabilities needs in accordance with standards and requirements.	The imposition of Community Quarantine Lockdowns affected the schedules and the utilization of funds were used as Covid-Response Emergency Fund remitted to the DOF.	4,580,000.00	0	4,580,000.00	Not Implemented
Management and Maintenance of GAD-MWSS page in the MWSS Website	The imposition of Community Quarantine Lockdowns affected the schedules and the utilization of funds were used as Covid-Response Emergency Fund remitted to the DOF.	380,000.00	0	380,000.00	Not Implemented
Conduct of Gender and Development Planning and Budgeting Sessions	The imposition of Community Quarantine Lockdowns affected the schedules and the utilization of funds were used as Covid-Response Emergency Fund remitted to the DOF.	830,000.00	0	830,000.00	Not Implemented
Participation in Women's Month Celebration Activities and programs through: (i) GAD-initiated reforestation project participated in by male and female employees, (ii) Participation in GAD-related activities of partner offices and organizations, (iii) Conduct of seminar-forum on women empowerment(iv) Film showing of PCW-endorsed movies for MWSS-CO employees, (v) distribution of flyers brochures on various GAD advocacy laws i.e. the MCW 9710, RA9262, RA7877, RA9208, RA8353 and (vi) celebration of the World Water Day	The imposition of Community Quarantine Lockdowns affected the schedules and the utilization of funds were used as Covid-Response Emergency Fund remitted to the DOF.	1,180,000.00	0	1,180,000.00	Not Implemented

GAD Programs and Projects (PAPs)	Actual Results	Approved Budget	Actual Cost	Unexpended Balance	Remarks
together with MWSS Concessionaires and Stakeholders					
Establishment of Child Development Center/Area for MWSS-CO officials and employees	The imposition of Community Quarantine Lockdowns affected the schedules and the utilization of funds were used as Covid-Response Emergency Fund remitted to the DOF.	1,100,000.00	0	1,100,000.00	Not Implemented
Conduct of Anti-VAWC Activity in observance of the 18-day Campaign to end VAW (e.g. forum, orientation sessions among others)	The imposition of Community Quarantine Lockdowns affected the schedules and the utilization of funds were used as Covid-Response Emergency Fund remitted to the DOF.	94,380.00	0	94,380.00	Not Implemented
Conduct training/orientation in relation to RA 7877 (Anti-Sexual Harassment Act of 1995)	The imposition of Community Quarantine Lockdowns affected the schedules and the utilization of funds were used as Covid-Response Emergency Fund remitted to the DOF.	94,380.00	0	94,380.00	Not Implemented
	TOTAL	**10,752,796.00**	**60,477.61**	**10,692,318.39**	

28.9 The above table disclosed that out of the allotted amount of P10.753 million, P60,477.61 was expended to the GAD activities, which is merely 0.56 per cent of the GPB.

Total MWSS Budget	GAD Budget Allocated	GAD Percentage	Utilized Portion	Percentage Utilized
P4,937,986,000	P10,752,796.00	0.22%	P60,477.61	0.56%

28.10 Inquiries with management revealed that it was not prioritized and continued due to the COVID-19 situation. Nevertheless they still complied with the completion of GPB and AR in compliance with the PCW.

28.11 Also, MWSS explained in their accomplishment report that the schedules of implementation of the activities were greatly affected by the imposition of the community quarantine lockdowns. The report was submitted to the PCW and was finalized on March 15, 2021.

28.12 The very reason of the PCW Memorandum Circular is for the agency to align their GPB to the pandemic situation. PCW even provided an example such as cancellation/postponement of a GAD activity due to the Enhanced Community Quarantine or implementation of a new GAD activity to respond to the COVID-19 situation.

28.13 It can be inferred from the above table that MWSS did not revise the GPB contrary to the provisions of Section 4.1 of PCW MC No. 2020-03 to adjust their activities in order to address the gender issues on COVID-19 situation. Review of the GPB disclosed that the 14 activities submitted to PCW in CY 2019 were not revised in order to comply with the said Memorandum Circular.

28.14 The Management also stated in the accomplishment report that the utilization of funds for the unimplemented activities were used as Covid-Response Emergency Fund and remitted to the Department of Finance (DOF).

28.15 However, in our examination of the documents, we noted that there was no remittance of fund to DOF that is intended for the COVID Response. Request was made for the details and supporting documents on the remittances made to the DOF for the unexpended GAD activities, however, no submission was made yet.

28.16 Meanwhile, on April 27, 2021 the PCW have noted in their review of accomplishment report that the COVID-19 situation severely affected the implementation of the agency's proposed GAD activities for CY 2020. The PCW recommended that the unimplemented activities be calibrated in line with the new normal and may be considered for implementation in the agency's CY 2021 GPB and succeeding GPBs.

28.17 PCW further recommended that MWSS CO participate in GAD webinar sessions on gender and gender analysis tools, such as those conducted by PCW and other training institutions offering similar programs.

28.18 PCW also encouraged the agency to attribute its flagship programs to GAD using the Harmonized Gender and Development Guidelines (HGDG) tool. Activities that engage indigenous cultural communities on the implementation, management and Monitoring and Evaluation of watershed programs and services were also recommended to integrate a gender perspective.

28.19 More so, paragraph 1.2.1.3 of PCW MC No. 2020-05 dated September 11, 2020 on the Preparation and Online Submission of Fiscal Year (FY) 2021 Gender and Development (GAD) Plans and Budgets provides that:

> *Agencies shall prioritize addressing gender issues brought about by the COVID-19 pandemic that are within their respective mandates as part of their FY 2021 GPB. xxx*
>
> *As such, in addition to direct GAD activities, agencies are highly encouraged to use the Harmonized Gender and Development Guidelines (HGDG) tool to ensure the gender-responsiveness of PAPs to be implemented in response to the COVID-19 pandemic and the "new normal"*

28.20 **We recommended that Management thru the Human Resources Department:**

a. Allocate the minimum required 5% of the total Corporate Operating Budget for GAD Plan and Budget in compliance with Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01;

b. **Submit the basis for the indicated budget of P215.000 million submitted to PCW as against the total COB of P4.938 billion;**

c. **Explain the statement in the Accomplishment Report that MWSS remitted funds to DOF for use as Covid-Response Emergency Fund and submit supporting document;**

d. **Maximize the utilization of the GAD funds through the implementation of GAD-related programs and projects which address gender and development issues in order to attain the objective for which the funds were provided; and**

e. **Comply with the PCW recommendations for the unimplemented GAD activities in CY 2020 to be considered in the agency's CY 2021 GPB and succeeding GPBs in compliance with PCW MC No. 2020-05; and**

f. **Require the Heads of the Implementing Departments to ensure that GAD projects are implemented and regularly assess the gender responsiveness of the programs and projects of the agency.**

28.21 In the recommendation letter B, the Finance Department thru the Budget Services Chief submitted the breakdown of the P215 million agency budget submitted to the PCW. However, as per verification, no reconciliation was made on the total COB of P4.938 billion

28.22 In the recommendation letter C, the HRD commented that the budget for Gender and Development (GAD) Programs and Projects was realigned as Covid-Response Emergency Fund and this was the one remitted to the Department of Finance (DOF). However, they were informed that the remitted amount is for the advance payment of the FY 2020 dividends and not for the COVID-Response Emergency Fund. Further, they tried to amend the 2020 GAD Accomplishment Report but it can only be submitted once since this has been uploaded to the Gender Mainstreaming Monitoring System (GMMS) of the Philippine Commission on Women (PCW). They sincerely apologize for the confusion cause and rest assured that they will coordinate with the Finance Department from time to time to avoid this kind of situation in the future.

28.23 For all other recommendations, the Management has concurred.

D. Other Audit Observations – Regulatory Office

Advances to UP-National Engineering Center

29. Cash Advances granted to UP National Engineering (UP NEC) amounting to P4.932 million intended for the Public Assessment of Water Services Project (PAWS) remained unliquidated contrary to Section 5.4 of COA Circular No. 94-013 dated December 13, 1994 resulting to possible wastage of public funds.

Date	Description	Amount Debited (Credited)
09/20/2011	UP Nat'l Engineering Center - Payment of Public Assessment of Water Service (PAWS) P2 Year 5	P 3,252,137.00
02/15/2012	UP Nat'l Engineering Center - Payment of Public assessment of Water Service (PAWS) Phase 2 Year 5 balance	2,678,999.15
05/17/2017	Refund of 50% of unexpended cash advance	(998,883.52)
	Balance as of December 31, 2021	**P 4,932,252.63**

29.1 Section 5.4 of COA Circular No. 94-013 dated December 13, 1994 states one of the responsibilities of the Source Agencies over funds transferred to Implementing Agencies (IA), as follows:

> *Require the IA to submit the reports and furnish the IA with a copy of the journal voucher taking up the expenditures. Upon receipt of the copy of the Certificate of Settlement and Balances (CSB) and the Credit Notice (CN) issued by the IA Auditor, the Accountant shall draw a journal voucher restoring back the amount previously credited for any disallowance. He shall furnish the IA with a copy of the JV;*

29.2 Also, 4.9 of COA Circular No. 94-013 dated December 13, 1994 states that "The Implementing Agency shall return to the SA any unused balance upon completion of the project."

29.3 This is a reiteration of a previous audit observation in the CYs 2013 to 2019 Annual Audit Reports.

29.4 The MWSS-RO transferred the amounts of P3.252 million and P2.679 million to the UP Diliman National Engineering Center intended for the PAWS project for Phase 2 of Year 5 in September 2011 and February 2012, respectively.

29.5 In the Agency Action Plan and Status of Implementation (AAPSI) submitted by MWSS-RO in August 2017 (the same AAPSI was resubmitted in February 2018), the Management informed that a demand letter was sent to UP-NEC on March 20, 2017, for the refund of the P2.070 million, including P36,323.10 from unexpended funds for Phase 2 of Year 3.

29.6 In their March 24, 2017 reply, the UP-NEC acknowledged the demand letter and granted the release of half of the total undisputed unexpended budget or P1.035 million, while the remaining half will be released upon clearance from the UP-COA of their Financial Report. The MWSS-RO received the amount of P1.035 million on May 17, 2017. The amount of P36,323.10 was applied to the unexpended funds for Phase 2 of Year 3, while the remaining P998,883.52 was applied to the Phase 2 of Year 5 funds.

29.7 On January 29, 2018, MWSS-RO sent another demand letter to UP-NEC for the remittance of the remaining 50% of the undisputed unexpended budget in the amount of P1.035 million. Furthermore, Management sent a demand letter on December 12, 2018 through the UP Chancellor to compel remittance of the said amount.

29.8 However, as of this writing, there is still no response from the UP Chancellor and the liquidation of the expenses were not submitted to MWSS-RO.

29.9 The Management said that they will coordinate with the UP-Accounting Office for the verification of the recorded expenses as charged to the PAWS budget per their approved disbursements and to record the same in the books of the Regulatory Office.

29.10 We likewise sent a confirmation letter via e-mail to the UP Accounting Office thru COA – UP Diliman last May 6, 2021, but we still haven't received any reply.

29.11 As per inquiry from Management, they have been in constant coordination with the Office of the Chancellor and the UP-NEC through telephone calls. On February 24, 2020, the former Project Engineer of the PAWS Project has agreed to help the UP-NEC in the completion of the full liquidation report and coordinate with the UP Accounting Office for the verification. To date, there is still no update regarding the liquidation of the cash advance. Moreover, Management informed that there is already a liquidation report by UP-NEC; however, Management is still requiring for the certification from COA-UP that the liquidation is correct.

29.12 **We recommended that Administration Department make a final demand to UP NEC for the immediate submission of the Liquidation Report of the funds transferred to them.**

29.13 Management commented that they are in continuous communication with the UP-NEC with regard to the status of the refund of the unexpended balance and rest assured that the MWSS RO is exerting all its efforts to close its pending items with the Commission on Audit.

29.14 The Management likewise stated that they are already in possession of the liquidation report of the UP-NEC and that they are also coordinating with the UP Accounting Office for the verification of the recorded expenses. The Management is already in the process of recording said expenses in its books of accounts.

29.15 Lastly, the Management will send a letter to UP-NEC, through UP Diliman Chancellor, to demand the immediate return/refund of the outstanding balance of the report.

29.16 As a rejoinder, we request submission of the liquidation report including attachments upon recording in the books of MWSS-RO, and copies of communication with UP.

Other Assets

30. Unserviceable assets totaling P1.095 million remained undisposed contrary to Section 79 of Presidential Decree (PD) 1445 resulting to further deterioration of the assets.

30.1 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, to wit:

> *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.*

30.2 DBM 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. A systematic and timely disposal will yield benefits in terms of, among others, a higher appraised value and by enabling storage areas available for other purposes.

30.3 As of December 31, 2020, the MWSS-RO has recognized unserviceable assets totaling P1.095 million over which the management lack policies regarding its monitoring and disposal.

30.4 As per inquiry, the Management committed to pursue the disposal of unserviceable assets within the year prior to their transfer to the new MWSS-RO building.

30.5 The non-disposal of the unserviceable assets may result to the further deterioration of the assets which occupy space within the premises, thus incurring additional expenses to retain them.

30.6 **We recommended and Administration department agreed 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.**

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Receivables

31. The non-monitoring and non-collection of Receivables from three (3) separated/retired officers/employees totaling P1.091 million may result to losses to the government and contrary to Section 6.1 of COA Circular No. 2016-005.

31.1 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. (emphasis ours)*

31.2 As of year ended December 31, 2020, the balance of the outstanding loans to separated/retired officers/employees for Motor Vehicle Loans remained at P1.091 million. Details are as follows:

Debtor	Date Granted	Loan Amount	Payments	Balance as of December 31, 2020
Separated Employee 1	03/29/1999	P 500,000.00	P 55,478.86	P 444,521.14
Separated Employee 2	04/23/1999	800,000.00	203,235.44	596,764.56
Separated Employee 3	06/18/2001	800,000.00	750,076.44	49,923.56
TOTAL		**P2,100,000.00**	**P1,008,790.74**	**P1,091,209.26**

31.3 Verification showed that Management sent demand letters dated May 22, 2017 to the three (3) former employees for the settlement of their outstanding obligations to the MWSS-RO.

31.4 In CY 2017, Separated Employee 3 with outstanding obligation of P299,923.56 paid the amount of P250,000.00.

31.5 However, from CY 2018 to present, there were no further collections nor demand for payment. Per our inquiry with Management, they reasoned out that they do not have available information about these persons and that they were not receiving any response from their previous demands.

31.6 The Management should be mindful of the remedies that the Agency may avail as an unpaid creditor to protect its right to recover the unpaid balances of the debtors. The non-recovery of the receivables is tantamount to wastage or losses of public funds, thereby depriving the government of funds intended for public purposes.

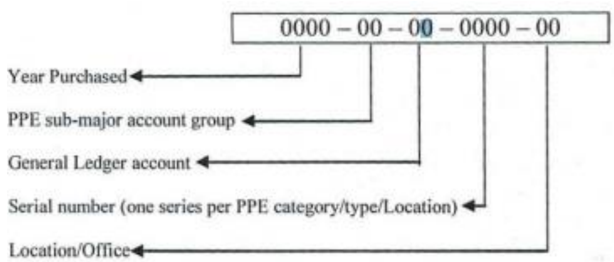
31.7 **We reiterated our recommendation and Administration department agreed to take the appropriate legal action to recover the unpaid receivables from the separated/retired employees in order to protect its interest and recover public funds.**

Property, Plant and Equipment

32. Deficiencies in identification/tagging of PPE contrary to Sections 5.6 and 5.7 of COA Circular No. 2020-006 resulted to difficulty in identification of PPE items during the physical inventory taking.

32.1 COA Circular No. 2020-006 dated January 31, 2020 provides the Guidelines and Procedures in the Conduct of Physical Count of PPE. Section 5.6 states that:

Each government agency shall adopt a uniform property identification system for PPE wherein a unique Property Number shall be assigned for each PPE item, using the following numbering system:



The codes for the PPE sub-major account group and General Ledger account correspond to those provided in the Revised Chart of Accounts prescribed under the Accounting Manuals of the respective Sectors (National, Local and Corporate).

Additional digits may be used for serial number and location/office, as necessary.

32.2 Section 5.7 of the same circular stated the contents of the property tag to be used, to wit:

For easy identification, the Property Number shall be prominently shown in the property sticker, in addition to the following vital information on the PPE item:

- *a. Description of the property*
- *b. Model Number*
- *c. Serial Number*
- *d. Acquisition Date/Cost*
- *e. Person Accountable*
- *f. Space for the validation/signature of the Inventory Committee*

32.3 Also, Section 6.2.5 of the same Circular states that:

All PPE items counted shall be tagged with new property stickers containing the information provided under Paragraph 5.7 of this Circular.

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32.4 This Office received the Agency's Physical Inventory Report of PPE for CY 2020 last February 17, 2020 conducted by the Property Department headed by the Senior Property Officer during the last few weeks of December 2020. During our sampling for the verification of existence and accuracy of PPE items indicated in the Physical Inventory Report, we have noted that the Agency have not applied the prescribed format of the property codes and property tags/stickers. The current property tag used by the agency only includes:

a. Property code (not updated)
b. Description of the property; and
c. Space for the validation/signature of the Inventory Committee

32.5 As per inquiry, the Management admitted that they were not aware of the new circular issued by COA concerning the inventory taking.

32.6 The suggested format for the property codes and tags shall aid the agency in performing a more efficient and accurate inventory taking of PPE which would likewise result to more reliable financial information pertaining to PPE.

32.7 **We recommended and Administration department agreed to adopt the format of the property code and identification tags as provided under Sections 5.6 and 5.7 and COA Circular No. 2020-006 dated January 31, 2020.**

Inter-Agency Payables

33. MWSS RO's non-monitoring and non-reconciliation of the withheld taxes and mandatory contributions to Government Service Insurance System (GSIS), Philippine Health Insurance Corporation (PhilHealth), and Home Development Mutual Fund (Pag-IBIG) resulted to variances in the remittances, thus, exposing the agency to possible penalties/interest that maybe imposed, and contrary to Section 80 of the National Internal Revenue Code (NIRC), Implementing Rules and Regulations of Republic Act No. 8291, HDMF Circular No. 275 and PhilHealth Circular No. 2019-009

33.1 Analysis of the Due to BIR, Due to GSIS, Due to Pag-IBIG, and Due to PhilHealth accounts showed the following over and under remittances as of December 31, 2020:

Agency	Amount
Due to BIR	P 279,832.43
Due to GSIS	97,665.30
Due to Pag-IBIG (Employee Share)	4,000.00
Due to PhilHealth	725.00
Under Remittances	**P 382,222.73**
Due to BIR – Final Vat	P (5,320.88)
Due to Pag-IBIG – Government Share	(4,000.00)
Due to PhilHealth – Employee Share	(2,689.87)
Over Remittances	**P (12,010.75)**
Net Under Remittances	**P 370,211.98**

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33.2 As per inquiry from Management, most of the negative balances and the recurring balances were amounts that are dormant long before the current Chief Corporate Accountant assumed his position.

33.3 The non-monitoring and non-reconciliation of the taxes and mandatory contributions will expose the agency to possible interest and/or penalties that may be imposed by the agencies concerned.

33.4 **We recommended and Accounting Section agreed to analyze and reconcile the under/over remittances and take the appropriate actions to comply with applicable BIR, GSIS, Pag-IBIG, and PhilHealth regulations pertaining to collection and remittance of withheld amounts.**

33.5 The Management commented that majority of the under remittance noted under Due to BIR account pertains to tax refunds. Furthermore, the under remittance noted under the Due to GSIS account pertains to the amounts withheld by the MWSS-RO from the newly hired employees which are yet to be billed by the GSIS. As to the other amounts noted, the Management commits to comply with the recommendations to reconcile the under/over remittances and take the appropriate actions.

Gender and Development-Regulatory Office

34. The Agency's GAD Budget was unutilized by P9.544 million or 76.04% of the total budget due to non-revision of the GAD Programs and Projects contrary to PCW Memorandum Circular No. 2020-03 dated April 27, 2020.

34.1 Section 4.1 of PCW Memorandum Circular No. 2020-03 dated April 27, 2020 provides that:

All national government agencies and instrumentalities are enjoined to review and revise, as necessary, their FY 2020 Gender and Development Plan and Budget to implement measures to address gender issues and concerns arising from the unequal status of their women and men stakeholders due to the COVID-19 situation. Such measures should be in line with their respective agency mandates, Republic Act No. 9710 or the Magna Carta of Women and the Bayanihan To Heal As One Act.

34.2 Also, Section 4.5 of the same Memorandum Circular states that:

Agencies, whether with an endorsed or unendorsed GPB, shall reflect all changes made in the original FY 2020 GPB (e.g., cancellation/postponement of a GAD activity due to the Enhanced Community Quarantine or implementation of a new GAD activity to respond to the COVID-19 situation) in their GAD Accomplishment Report (GAD AR). Agencies shall also fill-out Column 10 of the GAD AR form to indicate deviations from the identified GAD activities and targets, if applicable

34.3 The COB of MWSS-RO for CY 2020 was P235.339 million. The amount of P12.552 million, representing 5.33 per cent of the COB, had been allocated for GAD Plan and Budget (GPB) for CY 2020 and was approved by the Philippine Commission for Women (PCW) on September 21, 2020.

34.4 However, only P3.008 million was actually utilized, leaving a balance of P9.544 million at year-end which is 76.04% of the total GAD Fund.

34.5 A summary of the budgeted and actual expenses for GAD-related activities is shown in the table below:

GAD Activity	Budget	Actual Cost
To integrate gender elements into the existing monitoring forms that will capture water and wastewater-related issues of women and LGBTQ customers, specifically the effects of water and wastewater quality on their socio-economic activities	P 3,750,000.00	P 0.00
Conduct public consultations/gender-responsive campus awareness drive to include collection of relevant SDD, gender analysis and integrate gender perspective in identifying strategies to address identified gender issues.	1,872,500.00	376,156.80
Participation/attendance in different activities/ programs/film showings/art workshops/ symposia/trainings/ seminars featuring women's roles	1,492,828.10	186,279.33
Conduct of Anti-VAWC activities in observance of the 18-day Campaign to End VAW (Film showing or play, art workshop, seminars/trainings, symposium, RO IEC materials contest among others)	1,563,366.40	1,131,426.00
Conduct of Annual Family Day Activity with the aim of promoting responsible parenthood and family planning, non-sexist child rearing, and shared parenting and family responsibility	250,000.00	230,061.87
Conduct of regular GAD meetings and planning sessions	764,013.00	224,674.32
Include Gender Sensitivity Training in the MANCOPM Planning and include GAD executive briefing/or GAD updates in MANCOM Meetings	10,000.00	0.00
Conduct training on GAD Awareness (GST, GA, and GPB) for new GFPS, key staff or project implementers. And MWSS RO Talents conducting the public consultation/gender-responsive campus awareness drive. As suggested by PCW, engage a GAD Practitioner to assist in the process of gender issue identification, and strategies to address these issues.	300,000.00	42,087.84

GAD Activity	Budget	Actual Cost
Integration of GAD knowledge products in the Knowledge Management (KM) System	200,000.00	0.00
Conduct in-house training on GST for management and staff (new employees and COS) who have not attended GST yet	275,000.00	141,519.40
Conduct basic/refresher and deepening sessions on HGDG to integrate GAD perspectives in developing PAPs and attribute GAD budget (three 3-day seminar)	250,000.00	187,347.36
Conduct training on collecting/generating SDD and developing/maintaining GAD database	200,000.00	0.00
Training in Anti-SH Code (RA No. 7877, VAW, and Safe Safes Act (RA No. 11313))	200,000.00	183,646.09
Conduct of capacity building workshop/deepening sessions using HGDG toolkit for the GFPS and program implementers	200,000.00	0.00
Include GAD Accomplishment Report in MANCOM meetings	5,000.00	5,000.00
Consultation with internal clients on the activities to be conducted through GAD during general assemblies, etc.	27,000.00	0.00
Provide materials for the lactation room to be built in the new MWSS RO building	10,000.00	0.00
Conduct training of trainors (TOT) for GFPS on GA, GMEF and GPB	200,000.00	0.00
Conduct of sessions to prepare GAD-specific Information Education Communication (IEC) materials for RO and to review agency IEC materials to assess gender sensitivity and use of gender-fair language	275,000.00	0.00
Conduct of GAD Year-End Assessment of GAD accomplishments and development of GAD Agenda/Strategic Framework	700,000.00	294,349.57
Formulate and issue internal guidelines/policies on gender mainstreaming efforts, GAD mandates, development of GAD agenda/framework, integration of GAD perspectives in strategic plans and PAPs, SH, VAWC, CODI, etc.	2,000.00	0.00
Formulate GAD Agenda or GAD Strategic Framework which integrates GAD perspective	5,000.00	5,000.00
TOTAL	**P 12,551,707.50**	**P 3,007,548.58**

34.6 The MWSS-RO's annual GAD Accomplishment Report showed that GAD activities and fund utilization were not maximized since only a meager amount of the fund allocation was utilized.

34.7 As per inquiry, the Management was not able to utilize the budget due to the restrictions set by the Government of the Philippines in response to the COVID-19 Pandemic.

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34.8 We would like to emphasize that PCW Memorandum Circular No. 2020-03 allowed the revision of GAD projects in view of the limitations set by the pandemic.

34.9 However, the Management was not able to prepare a revised GPB to address the issue. Per inquiry with the Management, the GPB was only endorsed by PCW on September 21, 2020, hence, they were not able to revise.

34.10 This is a reiteration of prior years' observation. Recurring non-compliance to the mandatory requirement as well as poor utilization of the GAD budget may contribute to the delay in the implementation of gender mainstreaming which is highly encouraged by the PCW.

34.11 In addition, paragraph 1.2.1.3 of PCW MC No. 2020-05 dated September 11, 2020 on the Preparation and Online Submission of Fiscal Year (FY) 2021 Gender and Development (GAD) Plans and Budgets provides that:

> *Agencies shall prioritize addressing gender issues brought about by the COVID-19 pandemic that are within their respective mandates as part of their FY 2021 GPB. xxx*
>
> *As such, in addition to direct GAD activities, agencies are highly encouraged to use the Harmonized Gender and Development Guidelines (HGDG) tool to ensure the gender-responsiveness of PAPs to be implemented in response to the COVID-19 pandemic and the "new normal".*

34.12 **We recommended and Administration Department agreed to comply with GAD budget allocation as mandated, and work on the full implementation of the programmed projects and activities in the succeeding years to ensure attainment of the goals specified in the GAD plan.**

E. Compliance with Tax Laws

35. For MWSS Corporate Office, discrepancies were noted between the amount of taxes withheld on salaries and amount remitted. The total amount of taxes withheld per schedule for CY 2020 amounted to P15.282 million while the total amount of taxes remitted per BIR returns amounted to P19.792 million or a discrepancy of P4.510 million. In view of this, reconciliation by the Finance Department of the discrepancies noted was recommended.

36. For MWSS Regulatory Office, all income taxes withheld on salaries for January to November 2020 totaling P11.375 million were remitted in CY 2020 while income taxes withheld in December 2020 amounting to P531,705.55 was remitted on January 11, 2021. However, there are dormant amounts that remained unremitted.

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F. Compliance with Rules on the Government Mandatory Deductions

37. For MWSS Regulatory Office the amounts of P10.393 million, P0.722 million, and P0.937 million withheld from employees for their GSIS, Pag-IBIG, and PhilHealth contributions, respectively, from January to November 2020 were all remitted in CY 2020, while the December 2020 GSIS, Pag-IBIG, and PhilHealth contributions amounting to P0.767 million, P61,785.92 and P102,778.74, respectively, were remitted on January 08, 2021. However, there are dormant amounts that remained unremitted.

38. For MWSS Corporate Office, the validity of the remittances made to GSIS, PhilHealth and Pag-IBIG amounting to P722,010 cannot be ascertained due to the non-submission of the Disbursement Vouchers. In addition, there were abnormal balances amounting to P42,408 in the subsidiary ledgers (SL) and discrepancies amounting to P85,780 between the general ledgers (GL) and remittance schedules in the accounts Due to GSIS, PhilHealth, and Pag-IBIG due to the non-reconciliation, thus, casting doubt on the validity and accuracy of the accounts.

G. Status of Audit Suspensions, Disallowances and Charges

As of December 31, 2020, although there were no unsettled suspension nor charges, the total unsettled disallowances of MWSS-Corporate Office and MWSS-Regulatory Office amounted to P359.968 million and P246.704 million, respectively.

A summary of audit disallowances issued for transactions ending December 31, 2020 is shown below:

Audit Action	Beginning Balance January 1, 2020	Issued	Settled	Ending Balance December 31, 2020
MWSS – Corporate Office				
Suspensions	0	0	0	0
Disallowances	359,512,025	838,047	382,143	359,967,929
Charges	0	0	0	0
Sub-total	**359,512,025**	**838,047**	**382,143**	**359,967,929**
MWSS – Regulatory Office				
Suspensions		0	0	0
Disallowances	249,687,575	1,326,562	4,310,089	246,704,048
Charges	0	0	0	0
Sub-total	**249,687,575**	**1,326,562**	**4,310,089**	**246,704,048**
Grand Total	**609,199,600**	**2,164,609**	**4,692,232**	**606,671,977**

Details showing the status of audit disallowances for transactions of the MWSS Corporate Office and Regulatory Office are presented in Annex 1 of this report.