



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

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees

Metropolitan Waterworks and Sewerage System
Katipunan Road, Balara
Quezon City

We were mandated by the 1987 Philippine Constitution to audit the accompanying financial statements of the Metropolitan Waterworks and Sewerage System (MWSS), which comprise the balance sheet as at December 31, 2009, and the statements of profit and loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles generally accepted in the Philippines, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Philippine Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management did not conduct physical inventory of Property Plant and Equipment (PPE) accounts totaling P41.55 Billion and did not reconcile its accounting records with the property records. We were unable to satisfy ourselves by alternative means concerning the PPE quantities held at December 31, 2009.

Accounts Receivable of P1.22 billion, Other Receivables of P1.56 billion, Construction in Progress (CIP) of P797.26 million, Prepayments-Advance Payments to Suppliers and Contractors of P263.55 million, Payable accounts of P530.70 million and Other Liabilities of P116.93 million were not substantiated or supported by subsidiary ledgers. We were unable to confirm or verify the account balances by alternative means.

The reciprocal account balances between the MWSS Corporate Office and the MWSS Regulatory Office were not reconciled and, thus, not eliminated in the presentation of the financial statements. The presentation of these reciprocal accounts, i.e. Intra-agency Receivables of P16.567 million and Intra-agency Payables of P417.382 million, as two separate line items misstated the total assets, total liabilities and other affected income and expense accounts by undetermined amounts.

Cash withdrawals amounting to P35.36 million made in previous years remained unsubstantiated and the outcome of the investigations may result in possible adjustments to affected accounts.

As a result of the matters discussed above, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded assets or liabilities, and the elements making up the statements of profit and loss, changes in equity and cash flows.

The CIP included costs of completed and operational projects and of discontinued projects that were not reclassified to Other Assets, resulting in the overstatement of CIP by 206.28 million and understatement of PPE by the same amount. Income is also overstated by the amount of depreciation not recognized. Disbursements amounting to P129.19 million were reported under Other Maintenance and Operating Expenses instead of Other Bonuses and Allowances under Personal Services. Cash account was overstated by P16.8 million due to various unrecorded book reconciling items.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

COMMISSION ON AUDIT

By:

ELIZABETH C. LIBERATO
Supervising Auditor

August 12, 2010