



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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Metropolitan Waterworks and Sewerage System (MWSS), which comprise the statement of financial position as at December 31, 2010, and the statements of comprehensive income, 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 generally accepted state accounting principles 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 our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair

presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### *Basis for Qualified Opinion*

The validity of the balances of Property, Plant and Equipment and Inventory accounts amounting to P40 billion (net of depreciation) and P61.26 million, respectively, as of December 31, 2010 could not be ascertained due to non-submission of Physical Inventory Report and non-reconciliation of the Accounting and Property records.

The confirmed balance of Loans Payable-Domestic accounts posted a variance of P10.50 million against its recorded book balance, while accrued interest thereon of P257 million was not recognized in the books.

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 P820.436 million and Intra-agency Payables of P535.860 million, as two separate line items misstated the total assets, total liabilities and other affected income and expense accounts by undetermined amounts.

#### *Qualified Opinion*

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Metropolitan Waterworks and Sewerage System as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with generally accepted state accounting principles in the Philippines.

## **Report on Other Legal and Regulatory Requirements**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **COMMISSION ON AUDIT**

By:

**PRISCILLA DG CRUZ**  
Supervising Auditor

June 15, 2011