



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, 2011, 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 Property, Plant and Equipment amounting to P14.74B as of December 31, 2011 could not be ascertained due to non-submission of Physical Inventory Report and non-reconciliation of the Accounting and Property records.

Various assets and liability accounts amounting to P370.83M and P473.86M, respectively, are still subject for verification/reconciliation. The balances therefore are of doubtful validity and accuracy that could overstate or understate the assets and liabilities accounts at year end.

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 P1.13B and Intra-agency Payables of P637.98M, as two separate line items misstated the total assets, total liabilities and other affected income and expense accounts by undetermined amounts. Likewise, the difference between the reciprocal accounts of MWSS Corporate and Regulatory Offices increased from P157M in CY 2010 to P358M in CY 2011 despite repeated recommendations for its immediate reconciliation.

The reported Cash in Bank-Local Currency and Other Investments and Marketable Securities - BTR Special Reserve Fund (SRF) accounts were overstated by P18.91M due to unreconciled amounts with various banks.

Loans Payable – Domestic and Foreign accounts of MWSS-CO and RO were revalued at year end using the FOREX closing rates on December 29, 2011 instead of the closing rates on December 31, 2011, thereby resulting in the overstatement of liability and Loss on FOREX account as of December 31, 2011 by at least P50.89M.

The abnormal balances of Accounts Payable totalling P6.96M impaired the reliability of the financial statements as of December 31, 2011.

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, 2011, 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

July 24, 2012