



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, which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity, and statement of 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 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 audit opinion.

Basis for Qualified Opinion

As discussed in Part II A – Comments and Observations, we consider the following in the formulation of our audit opinion:

1. No physical inventory was conducted for certain items under the Property, Plant and Equipment (PPE) amounting to P8.80 billion or 14% of the year-end balance of the PPE of P63.23 billion (*with a net book value of P24.27 billion and net of Land*), thus their existence and accuracy were not ascertained. For Land account, unreconciled discrepancy was noted between the inventory report and the books of accounts, with the books higher by P4.84 billion. Management informed they will continue with the inventory taking and will exert all efforts to effect the adjustments gathered during the inventory taking.
2. The subsidiary ledger asset accounts of the MWSS Corporate Office totaling P1.80 billion representing 3% of MWSS' total assets of P53.31 billion (net of allowance for doubtful accounts of P1.64 billion and accumulated depreciation of P38.96 billion) and the subsidiary ledger liability accounts totaling P0.84 billion which was 5% of MWSS' total liabilities of P17.13 billion remained unreconciled with the General Ledger and unverified due to incomplete supporting documents. Hence, the balances of these accounts at year-end were doubtful of validity and accuracy that could overstate or understate the assets and liabilities accounts at year-end.
3. The balance of the reciprocal accounts between MWSS Corporate Office and the Regulatory Office in the amount of P1.35 billion and P640 million respectively remained unreconciled with the asset accounts higher than liability accounts by P713 million due to unresolved issues on the sharing of income and expenses. As a result, no elimination of these reciprocal accounts was effected in the financial statements for CY 2012.
4. Interest on the P2.250 billion floating rate Bond Issuance under the DBP/LBP Club deal Arrangement guaranteed by the National Government booked up under Other Receivables from Maynilad Water Services, Inc. (MWSI) account in the amount of P144.342 million as of December 31, 2012 was not recognized by MWSI as its liability to MWSS.

5. Accrual of the obligations for Consultancy Services by MWSS-RO in the amount of P88.850 million in CY 2012 was not properly documented, as consultancy contracts were signed only in the following year.

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, 2012, and of 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 the Supplementary Information Required Under Revenue Regulations No. 15-2010

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:

EYREN M. YULDE
OIC- Supervising Auditor

August 1, 2013