



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, 2015 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. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### *Basis for Disclaimer of Opinion*

In Note 4, Property, Plant and Equipment (PPE), except those fully depreciated and those classified as administration equipment, are stated at appraised value based on the CY 2010 Concessionaire's Asset Condition Report (CACR) of the MWSS Regulatory Office (RO). In Note 21, the Land account showed adjustments in appraisal in CYs 2014 and 2015 based on the CY 2010 CACR and corrections reflected in the Physical Inventory Committee Report, resulting in an increase in Appraisal Capital Stock amounting to P683.432 million.

The CACR which was used as basis for the recording of revaluation, reported that the Land account had a market value of P20.837 billion. However, the Land account in MWSS' books recorded under PPE and Other Assets accounts showed an ending balance of P20.504 billion or an unrecorded revaluation of P333.227 million. The difference can be attributed to the selective or partial recording of revaluation caused by the failure to reconcile the Finance Department's records against Property Department's records on the total area of MWSS lands which have been subject of prior year's audit observations.

The non-conduct of revaluation/appraisal of PPE in CY 2015 and the selective or partial recording of revaluation constitute a departure from the Philippine Accounting Standard 16 which requires that after recognition as an asset, a PPE item whose fair value can be measured reliably shall be carried at a revalued amount which shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date; the items within a class of PPE are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

Further, COA Resolution 89-17 dated March 17, 1989, which amends certain provisions of the State Accounting Standards pertaining to the PPE revaluation through appraisal, requires the revaluation by an independent appraiser or expert every five years (on fixed assets existing as of the end of the fifth year), or even before the five-year period ends, whenever there is a currency devaluation or price increase which raises price levels (based on the Consumer Price Index).

The significant effect of the non-conduct of revaluation/appraisal of PPE in CY 2015 rendered unreliable the balance of Appraisal Capital Stock and the carrying value of PPE amounting P36.383 billion and P46.251 billion, respectively, at year-end, comprising 62 percent and 79 percent of total assets, as a result of which, necessary adjustments regarding several transactions recorded in the PPE and Appraisal Capital Stock were not determined. On the other hand, selective revaluation and partial reporting of amounts in the financial statements of the Land accounts recorded under PPE and Other Assets accounts rendered uncertain the accuracy of the Land account amounting to P20.504 billion as we were not able to determine the revalued amount of the Land.

*Disclaimer of Opinion*

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, 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.

*Emphasis of Matter*

We draw attention to Note 27 to the Financial Statements which describes the uncertainties related to the outcome for lawsuits or claims filed by third parties which are either pending in the courts or under negotiations. These cases involve, among others, lease of properties, collection of sum of money, water use conflict issues, payments of claims and protest on real property taxes and tax consequences resulting from revaluation/appraisal of its Property, Plant and Equipment. Because of the significance of the matters described in the

Basis for Disclaimer of Opinion paragraphs, it is inappropriate to, and we do not, express an opinion on the matter.

**Report on the Supplementary Information Required Under BIR Revenue Regulation 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 28 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, because of the significance of the matters disclosed in the Basis for Disclaimer of Opinion paragraph, it is inappropriate to and we do not express an opinion on the supplementary information.

**COMMISSION ON AUDIT**

  
**EYREN MARANAN - YULDE**  
OIC - Supervising Auditor

April 25, 2016