



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF TRUSTEES

Metropolitan Waterworks and Sewerage System
Katipunan Road, Balara
Quezon City

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the accompanying financial statements of the Metropolitan Waterworks and Sewerage System (MWSS), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity, statements of cash flows, statements of comparison of budget and actual amounts for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our report dated May 26, 2017, a qualified opinion was rendered on the fairness of the financial statements as at December 31, 2016. However, due to the material impact of its non-adoption of Philippine Public Sector Accounting Standards (PPSAS) as its financial reporting framework, our present opinion on the financial statements as at December 31, 2016 is adverse.

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the accompanying financial statements do not present fairly, in all material respects, the financial position of the MWSS as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended and comparison of budget and actual amounts in accordance with PPSAS.

Basis for Adverse Opinion

The financial statements of the MWSS are materially misstated due to the following:

1. Recognition of the Appraisal Capital Stock with year-end balance of P28.428 billion due to revaluation of the MWSS properties in prior years and realization of Appraisal Capital Stock to Retained Earnings totaling P7.955 billion;
2. The reported year-end balance of the account Other Receivables amounting to P5.611 billion was unreliable due to inclusion of disputed claims by MWSI consisting of borrowing cost amounting to P4.048 billion despite its uncertainty of collection; and
3. Turned-over MWSS properties to the two Concessionaires amounting to P67.280 billion per Inventory Report, upon privatization in CY 1997, were not reclassified as Service Concession Assets. Further, subsequent construction, development, acquisition, and upgrade of the service concession assets were not accounted for in the books.

4. The existence of unreconciled/unverified, abnormal/negative and dormant balances totaling P1.788 billion affects the reliability and accuracy of total asset and liability account balances contrary to Sections 111 and 114(2) of PD No. 1445.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the MWSS in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PPSAS, 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.

In preparing the financial statements, management is responsible for assessing the MWSS' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the MWSS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the MWSS' financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. ✓

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other 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 in Note 29 to the CY 2017 financial statements is presented for the purposes of filing with the Bureau of Internal Revenue and is not a required part of the financial statements. Such supplementary information is the responsibility of management. Because of the significance of the matters described in the Basis for Adverse Opinion paragraph, it is inappropriate to, and we do not, express an opinion on the information referred to above.

COMMISSION ON AUDIT


MA. NANCY J. UY
OIC – Supervising Auditor

May 17, 2018