



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***

#### *Qualified Opinion*

We have audited the financial statements of the Metropolitan Waterworks and Sewerage System (MWSS), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of financial performance, statements of changes in net assets/equity and statements of cash flows for the years then ended, and statement of comparison of budget and actual amount for the year ended December 31, 2018 and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Bases for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the MWSS as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Public Sector Accounting Standards (PPSAS).

#### *Bases for Qualified Opinion*

1. The validity and accuracy of the Property, Plant and Equipment (PPE) with net book value of P45.533 billion were doubtful due to various deficiencies noted totaling P14.852 billion or 32.6 per cent of the total PPE thus, not in conformity with the Conceptual Framework.
2. The year-end balance of the Other Receivable account of P5.618 billion was not reliable due to inclusion of P4.175 billion or 74 per cent of which are: (a) disputed claims by MWSI consisting of borrowing cost amounting to P4.048 billion which is uncertain of collection and (b) guarantee deposits of active customers already transferred to MWSI and MWCI amounting to P64.799 million and P62.308 million, respectively.
3. The reported year-end balance of Other Assets account totaling P1.920 billion was doubtful affecting fair presentation of the financial statements in accordance with Paragraph 27 of PPSAS 1, to wit: (a) undocumented garnished, dormant and unreconciled accounts totaling P1.205 billion; (b) idle lands valued at P593.706 million are still recorded under Other Asset accounts instead of the appropriate Investment Property Account at cost; (c) asbestos cement pipes disposed in CY 2014 remained in the books with carrying value of P82.634 million; and (d) various non-operational assets

amounting to P38.816 million which remained undisposed for more than 10 years were no longer monitored by the Asset Management Department thus, physical existence is questionable.

4. The accuracy of various assets and liabilities cannot be ascertained due to inclusion of unreconciled/unverified accounts totaling P574.475 million and P884.548 million, respectively.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 Code of Ethics for Government Auditors (Code of Ethics) together 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 and Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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.

#### *Other Matter*

In our report dated May 17, 2018, we expressed an opinion that the CY 2017 financial statements did not present fairly the financial position, financial performance and cash flows of the MWSS in accordance with PPSAS, mainly due to (a) misclassified Property, Plant and Equipment (PPE) turned-over to the concessionaires costing P67.280 billion and (b) appraised/revalued amount of PPE totaling P36.423 billion.

As shown in Note 10 of the CY 2018 financial statements, Management classified the PPE turned over to the concessionaires as Service Concession Assets in conformity with PPSAS 32-Service Concession Arrangements. Likewise, the revalued amount of PPE under its previous basis of accounting is deemed cost in accordance with PPSAS 33-First-Time Adoption of Accrual International Public Sector Accounting Standards (IPSAS).

Accordingly, our present opinion on the financial statements as at December 31, 2017 is qualified, which is different from that expressed in our previous report.

## *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 ISSAIs 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 ISSAIs, 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 disclosures 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.

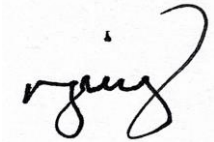
We also provide those charged with governance a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## ***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 27 to the CY 2018 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 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:

A handwritten signature in black ink, appearing to read 'Nancy J. Uy', is written over a light gray rectangular background.

**MA. NANCY J. UY**  
OIC – Supervising Auditor

May 28, 2019