



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

## **INDEPENDENT AUDITOR'S REPORT**

### **THE BOARD OF TRUSTEES**

Metropolitan Waterworks and Sewerage System 489 Katipunan Avenue,  
Balara, Quezon City

### ***Report on the Audit of Financial Statements***

#### ***Adverse 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, 2021 and 2020, 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 amounts for the year ended December 31, 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the Bases for Adverse Opinion section of our report, the accompanying financial statements do not present fairly, in all material respects, the financial position of the MWSS as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Public Sector Accounting Standards (IPSASs).

#### ***Bases for Adverse Opinion***

The Property, Plant and Equipment (PPE) - Service Concession Assets (SCAs) with carrying amounts of P216.331 billion and P183.233 billion as of December 31, 2021 and 2020, representing 87.43% and 78.56% of total assets, respectively, and Deferred Service Concession Revenue (DSCR) with balances of P188.851 billion and P158.386 billion as of said periods, comprising 94.33% and 93.59% of total liabilities, respectively, are materially misstated due to the following errors and deficiencies, contrary to International Public Sector Accounting Standards (IPSASs) 1, 3 and 32: a) non-disclosure of the PPE SCA account in the CY 2021 Notes to Financial Statements for the restatements made for the prior period errors and the CY 2020 transactions totaling P198.918 billion; b) understatement of the SCA and DSCR accounts due to the non-recognition of the SCA of the Bulacan Bulk Water Supply Project (BBWSP) amounting to P6.178 billion; c) understatement of the Service Concession Revenue (SCR) and overstatement of DSCR by an estimated amount of P5.677 billion due to non-amortization of the DSCR account; d) understatement of the related Depreciation Expense and Accumulated Depreciation of PPE - SCA at an estimated amount of P1.688 billion; e) understatement of the SCA and DSCR accounts due to the non-recognition of the

General and Administrative Equipment (GAE) of the concessionaires; f) discrepancy of SCA account amounting to P24.577 billion between the CY 2021 financial statements and the general ledger (GL); and g) absence of the List of Inventory of SCA and the relevant documents necessary to establish the validity and completeness of the recognition of SCA and related accounts in CY 2020 amounting to P198.918 billion and the CY 2021 additions amounting to P23.520 billion. These errors and deficiencies with material effect on the faithful representation of the affected accounts in the financial statements were also noted in CY 2020.

Further, the Other PPE account with carrying amounts of P15.606 billion and P18.897 billion as of December 31, 2021 and 2020, respectively are materially misstated due to the following errors and deficiencies, contrary to IPSASs 1 and IPSAS 17: a) non-disclosure of the Other PPE account in the CY 2021 Notes to Financial Statements for the restatements made for the prior period errors and the CY 2020 transactions totaling P18.995 billion; b) overstatement of the Other PPE account by an estimated amount of P71.944 million due to the non-adjustment of the CIP account for the completed projects amounting to P156.551 million and the non-recognition of the corresponding Depreciation Expense; c) unreconciled variance amounting to P24.577 billion between the balances as reported in the financial statements amounting P15.606 billion and the GL amounting P40.183 billion; d) adjustment on the land account amounting to P267.207 million remained unsupported; e) variance of P29.527 million from CY 2016 sale of unserviceable vehicles not accounted for and transferred vehicles without cost already documented, inspected and accepted by the recipient LGU, with a total net book value of P1.113 million not yet dropped from the books of accounts; f) incomplete inventory of Other PPE items for CY 2021, with P5.670 billion not inspected/counted; g) inexistent, dilapidated, non-operational and/or abandoned Office Building and Other structures amounting to P5.117 billion not adjusted; h) Certificates of title and other proofs evidencing ownership of land assets totaling P4.668 billion not yet secured; i) Other Structures with book value of P1.218 million recorded in the books but not located during the CY 2021 inventory; j) unrecorded 939 items of Other PPE under the Buildings and Other Structures account found during the CY 2021 inventory; k) various MWSS properties occupied by private individuals or taken back by the donors; l) Several deep wells (DWs) can no longer be located since either these were already demolished or other structures were already erected on the DW sites. Also, there were discrepancies in the list of DW between the records of MWSS CO and MWCI; and m) Operations of various DWs were observed to be temporarily suspended due to water qualities, non-operational and abandoned but not yet dismantled.

Also, the Accumulated Surplus/(Deficit) account with balance of P40.069 billion and P41.069 billion as of December 31, 2021 and 2020 is not fairly presented due to the following material errors, omissions and deficiencies contrary to IPSASs 1 and 3: a) non-reconciliation and non-disclosure in the CY 2021 Notes to Financial Statements of the restatement of asset accounts amounting to P15.793 billion and liabilities accounts amounting to P14.768 billion; b) non-reconciliation and non-disclosure in the CY 2021 Notes to Financial Statements of the adjustments/restatements effected in the beginning balance of the Accumulated Surplus/(Deficit) amounting to P987.921 million resulting to an unreconciled variance amounting to P1.415 billion; c) non-reconciliation and non-disclosure in the CY 2021 Notes to Financial Statements of the restatements effected in the Income/Expense accounts resulting to understatement of the CY 2020 Net Surplus before Tax by an estimated amount of P975.998 million; and d) discrepancies in the CY 2021 Accumulated Surplus/(Deficit) account amounting to P439.879 million between the Statement of Changes in Net Assets/Equity and the GL.



We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are 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 Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSASs, and for such internal control as management determined 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 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 our 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 MWSS 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 MWSS 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 MWSS 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 observations, including any significant deficiencies in internal control that we identify during our audit.

#### ***Report on Other Regulatory Requirements***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required in Revenue Regulations No. 15-2010 in Note 24 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. Because of the significance of the matters described in the Bases for Adverse Opinion paragraphs, it is inappropriate to, and we do not express an opinion on the information referred to above.

#### **COMMISSION ON AUDIT**

  
**MARIA CHRISTINA P. ANTONIS**  
 OIC – Supervising Auditor

June 3, 2021