



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, 2013, 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

The carrying value of the Property, Plant and Equipment (PPE) at P35.408 billion was not correctly stated due to non-conduct of revaluation/appraisal since CY 1995.

The balance of the Land account in the amount of P12.444 billion was not fairly stated mainly due to:

- a. Land with an area of 92.61 hectares, titled under MWSS name, was not recorded in the books; and
- b. Transfer Certificate of Titles (TCT) of 128 lots with an area of 194.91 hectares were not found during the actual inventory of land titles which were recorded in the books but were not included in the inventory list of TCTs.
- c. The dropping from the books of accounts of land with carrying value of P89.725 million was not effected because of the discrepancy in land area by 29.573 million square meters between the accounting records and TCT No. 36069, with the area per accounting records higher than the area per land title. Likewise, a difference of 2,594.40 square meters was noted between the area in the remaining lots per land title and the area per inventory after the sale of the lots.

The year-end balance of *Construction-in-Progress* account at P6.40 billion was not correctly stated in view of the written information from the Deputy Administrator for Engineering & Operations, which was validated by the Audit Team, that MWSS had no on-going construction projects as of the end of CY 2013.

Reciprocal accounts between MWSS Corporate Office and MWSS Regulatory Office in the amount of P1.689 billion and P749.296 million respectively, remained unreconciled with a difference of P940.177 million due to unsettled issues on sharing of concession fees and expenses, resulting in the non-elimination of the reciprocal accounts at the end of the year.

The accuracy and validity of the Loans Payable-Domestic account with outstanding balance of P714.741 million was not established due to unreconciled variance between the MWSS books of accounts and the confirmed balance from the Bureau of Treasury with the latter higher by P532.778 million.

The validity of the Payables' aggregated balance of P515.678 million was found doubtful due to the inclusion of:

- a. Accounts totaling P181.548 million outstanding for more than two years;
- b. Undocumented Accounts totaling P32.180 million; and
- c. Accounts with abnormal or debit balance of P3.281 million

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, 2013, 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.

Emphasis of Matter

We draw attention to Note 25 to the Financial Statements, which describes the uncertainties related to the lawsuits or claims by third parties against MWSS which are either pending in courts or under negotiations. No provision for contingency is recognized in the financial statements since the outcome of said lawsuits are not presently determinable.

Likewise, we draw attention to Note 27 to the Financial Statements which disclosed that the System has unreconciled balances in the asset and liability accounts which were taken up as one comprehensive unreconciled account. At year-end, 42 General Ledger accounts with net amount of P362.735 million remained unreconciled with the Subsidiary Ledger and unverified for lack of supporting documents.

Our opinion is not qualified in respect of the above matters.

Other Matter

The CY 2013 audit disclosed significant audit observations, other than those used as basis for qualified opinion:

- a. The Cash and cash equivalents in the amount of P2.149 billion was not sufficient to cover the Loans Payable to the Bureau of Treasury (BTr), which have been collected from the concessionaires and all recognized Trust Accounts, totaling P2.583 billion at the end of the year. This is indicative that the funds for remittance to the BTr and the funds intended for specific purposes were used for other purposes.
- b. The collections from the two concessionaires for the payment of foreign loans from CYs 2005 to 2013 in the total amount of P1.863 billion were not remitted to the Bureau of Treasury due to the unresolved issue on whether the loan was equity of the government or will remain as a loan since the concessionaires continued the implementation of the project.
- c. The appointment of a member of the Board of Trustee as Acting Chief Regulator of the MWSS – Regulatory Office in concurrent capacity was in violation of the provisions of Item 2 of Exhibit A- Organization and Operation of the Regulatory Office of the Concession Agreement.

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 26 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

EYREN MARANAN - YULDE

OIC - Supervising Auditor

May 16, 2014