



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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, 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 material errors and deficiencies on several accounts in the financial statements have adversely affected the faithful representation of the effects of transactions contrary to the pertinent provisions of IPSAS and the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, which consist of the following: a) Service Concession Assets and Deferred Service Concession Revenue with carrying amounts of P157.852 billion and P156.884 billion, respectively, as at December 31, 2020 are not supported with details and supporting documents, and the 2019 financial statements are materially misstated due to non-restatement of the opening balances of net assets/equity accounts, contrary to IPSASs 1, 3 and 32; b) incomplete physical inventory of Property, Plant and Equipment (PPE) with carrying amount of P20.437 billion and non-submission of Physical Inventory Report (PIR) for CYs 2019 and 2020; absence of certificates of titles and proofs of ownership of land assets totaling P4.668 billion; non-existent, dilapidated, non-operational and/or abandoned Office Building and Other structures amounting to P5.117

billion as reported in CY 2018 PIR still carried in the books without impairment loss; non-adjustment of Construction in Progress consisting of completed projects to PPE amounting to P156.551 million; and other prior period errors and deficiencies on PPE, contrary to the pertinent provisions of IPSASs 1, 17 and 21, resulting to material misstatements of PPE and other affected accounts by undetermined amounts; c) doubtful collectability of various dormant receivables amounting to P4.255 billion, without provision for impairment loss, contrary to IPSAS 26 resulting to misstatement of receivables and related accounts by undetermined amounts; and d) assets and liabilities amounting to P574.475 million and P884.548 million, respectively, included in various assets and liabilities accounts in the financial statements as of December 31, 2020 and 2019 were unaccounted and undocumented, contrary to IPSASs 1 and 21, and the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, resulting to misstatement of assets by undetermined amount and liabilities by P884.548 million.

We conducted our audits 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 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 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 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 findings, 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 25 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 supplementary information referred to above.

COMMISSION ON AUDIT



MARIA CHRISTINA P. ANTONIS
OIC – Supervising Auditor

June 16, 2021