



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 consolidated financial statements of the Metropolitan Waterworks and Sewerage System (MWSS), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of financial performance, consolidated statements of changes in net assets/equity, and consolidated statements of cash flows for the years then ended, and consolidated statement of comparison of budget and actual amounts for the year ended December 31, 2019, 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, 2019 and 2018, and its financial performance and cash flows for the years then ended, in accordance with International Public Sector Accounting Standards (IPSASs).

Bases for Adverse Opinion

A total of P156.884 billion in assets and its upgrades provided by the Concessionaires under the concession agreements with the MWSS were not recognized in the MWSS books, contrary to IPSAS 32 – Service Concession Arrangements: Grantor, thereby, understating the assets, liability and revenue accounts;

Also, the validity and accuracy of the Property, Plant and Equipment (PPE) account balance of P46.094 billion remained doubtful due to the: (a) absence of proof of ownership over the 175 land assets totaling 3,784,012.70 sq. m. with net book value of P4.912 billion and unrecorded 23 land titles; (b) Improperly recorded transactions totaling P1.013 billion; (c) unreconciled net variance of P3.247 billion on Land, Office Building and Other Structures between the records of the Finance Department and Inventory Report of the Asset Management Department; and (d) inexistent, dilapidated, non-operational and/or abandoned various Office Building and Other Structures totaling P5.117 billion, hence, contrary to paragraph 27 of IPSAS 1 – Presentation of Financial Statements;

In addition, the Other Assets account balance of P724.425 million is not reliable due to absence of objective evidence of existence as evident in the: (a) undocumented garnished,

dormant and unreconciled accounts totaling P685.609 million; and (b) unmonitored and undisposed non-operational assets amounting to P38.816 million, thus, contrary to the qualitative characteristic of faithful representation provided in paragraph 27 of the IPSAS 1 – Presentation of Financial Statements;

Further, the incomplete reconciliation and unavailability of documents to support the beginning balances of various assets and liabilities accounts amounting to P574.475 million and P884.548 million, respectively, rendered the balances of the affected accounts doubtful, contrary to the qualitative characteristics of financial reporting on reliability and faithful representation, in accordance with the IPSAS 1 – Presentation of Financial Statements; and

Furthermore, the lapses in the monitoring and conduct of periodic reconciliation of short-term investments/time deposits accounts resulted in a discrepancy of P310.098 million between the bank confirmed balance and the book balance as of December 31, 2019. Also, the subsidiary ledgers were not maintained for ten time deposit accounts totaling P947.818 million. These cast doubt on the accuracy of the balance per books and are contrary to paragraph 27 of IPSAS 1 – Presentation of Financial Statements, and runs counter to sound internal control.

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 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 bases for our adverse opinion.

Emphasis of Matter

We draw attention to the Term Extension in the General Information of the Notes to the Financial Statements which describes the approval of the extension of the Concession Agreements of the concessionaires Manila Water Corporation Inc. and Maynilad Water Services, Inc. for an additional 15 years or up to May 6, 2037. This term extension is the subject of the review of the Department of Justice (DOJ) and for the said Department to craft and recommend to the Office of the President of the Republic, the amended version. 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.

Other Matter

In our report for CY 2018 issued on May 28, 2019, we expressed a qualified opinion on the fairness of the financial statements as at December 31, 2018 in accordance with IPSASs. The bases, however, for the qualified opinion rendered in the prior year were not yet resolved in CY 2019.

Considering further that the MWSS PPE account amounting to P46.147 billion or 78.80 percent of the total assets of P58.559 billion, and due to the magnitude and the pervasiveness of the misstatements of the PPE account comprising the following: (a) P156.884 billion

understatement of the assets, liability and revenue accounts as a result of the non-adoption of IPSAS 32 - Service Concession Arrangements: Grantor; and (b) P14.555 billion pertaining to various deficiencies in the PPE account, our present opinion is different from that expressed in our previous report.

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's 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 MWSS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the MWSS's 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 Agency'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 MWSS'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 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 Legal and 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 in Note 27 to the financial statements is presented for 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


MA. NANCY J. UY
Supervising Auditor

July 8, 2020