



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Philippine Guarantee Corporation
17/F Citibank Tower, Citibank Plaza
Valero St., Makati City

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were mandated to audit the financial statements of the Philippine Guarantee Corporation (PHILGUARANTEE), formerly known as the Trade and Investment Development Corporation of the Philippines, which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the PHILGUARANTEE. Because of the significance of the matters described in the *Bases for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Bases for Disclaimer of Opinion

We were precluded from performing many of our planned audit procedures for identified significant and material accounts, thus, limiting the scope of our audit, due to the non-submission by Management of PHILGUARANTEE of several of the required financial reports and schedules, supporting documents and other relevant data, which include, among others:

- a. Complete and detailed schedule of the Corporation's cash and cash equivalents and investments totaling P20.470 billion and P14.481 billion as at December 31, 2020 and 2019, respectively, which prevented us from validating the propriety of their classification in the statement of financial position pursuant to Philippine Financial Reporting Standards (PFRS) 9, *Financial Instruments*, and validating them with those confirmed by banks;
- b. Detailed schedule of the Corporation's deferred tax assets amounting to P1.890 billion and P1.695 billion as at December 31, 2020 and 2019, respectively, and deferred tax liabilities amounting to P203.135 million and P174.998 million, as at

December 31, 2020 and 2019, respectively, and the accompanying evidence to support the sufficiency of future taxable profits against which the related deductible temporary differences can be utilized as required by Philippine Accounting Standards (PAS) 12, *Income Taxes*;

- c. Detailed documentation of its conduct of impairment testing of the reported investment property amounting to P12.643 billion and P12.736 billion as at December 31, 2020 and 2019, respectively, and right-of-use (ROU) asset amounting to P138.021 million and P174.092 million as at December 31, 2020 and 2019, respectively, as required by PAS 36, *Impairment of Assets* which would justify the non-recognition of impairment loss during the year despite the existence of impairment indicators;
- d. Pertinent schedules and records as regards its application of the expected credit loss (ECL) model in impairing the Corporation's receivables totaling P12.354 billion and P16.382 billion as at December 31, 2020 and 2019, respectively, and in measuring outstanding credit guarantees of P178.791 billion and P210.058 billion as at December 31, 2020 and 2019, respectively, which prevented us from completely testing and assessing the adequacy of the recorded provision for ECL in accordance with PFRS 9; and
- e. Copies of outstanding lease contracts and pertinent supporting documents which would allow us to determine whether the Corporation has fully adopted and applied the straight-line basis prescribed under PFRS 16, *Leases* in recognizing rent income.

In view of the above and coupled with the non-posting and/or delayed posting in the Financial Information System of all the financial transactions of the Corporation, particularly those of its Housing Guarantee Group, we were unable to determine whether any adjustments might have been found necessary in respect of the recorded or unrecorded cash and cash equivalents, investments, deferred taxes, investment property, ROU asset, provision for ECL, receivables, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

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 PFRSs, 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 PHILGUARANTEE'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 PHILGUARANTEE or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing PHILGUARANTEE's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of PHILGUARANTEE's financial statements in accordance with International Standards of Supreme Audit Institutions and to issue an auditor's report. However, because of the matters described in the *Bases for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of PHILGUARANTEE in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Report on Other Legal and Regulatory Requirements

We were mandated to form an opinion on the basic financial statements taken as a whole. The supplementary information in Note 29 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 the Management of PHILGUARANTEE. Because of the significance of the matters described in the *Bases for Disclaimer of Opinion* section, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

COMMISSION ON AUDIT


TERESITA B. TITULAR
Acting Supervising Auditor



July 27, 2021