



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Trade and Investment Development Corporation of the Philippines
Philippine Export-Import Credit Agency
17/F Citibank Tower, Citibank Plaza
Valero St., Makati City

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of the Trade and Investment Development Corporation of the Philippines (TIDCORP), also known as the Philippine Export-Import Credit Agency, which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly the financial position of TIDCORP as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Adverse Opinion

TIDCORP did not comply with Bangko Sentral ng Pilipinas (BSP) regulations on loan classification and provisioning requirements by staggering the booking of the required provisioning for a defaulted guarantee account over a period of ten years without the approval of the BSP Monetary Board. Accordingly, TIDCORP's recorded loss for CY 2017 and the Paripassu payable and Accumulated deficit as at December 31, 2017 are understated by P486.880 million, P1.816 billion and P1.989 billion, respectively. Moreover, the Loans receivable, net of allowance for bad debts, as at December 31, 2017 is overstated by P173.280 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 TIDCORP in accordance with the Code of Ethics for Government Auditors in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.1(d) to the financial statements, which states that TIDCORP's financial position and operational performance have declined as continued losses totalling to P407.246 million were incurred by TIDCORP for the past three years. In addition, as at December 31, 2017, the Corporation's accumulated deficit was at P5.154 billion and the non-performing loans ratio stood at 83.45 per cent of the gross loans receivable of P615.703 million. We also draw attention to Note 21.1 to the financial statements which describes TIDCORP's pending request to the BSP Monetary Board for the staggered booking of the required provisioning for a defaulted guarantee account over a period of seven years starting CY 2018 which if denied will increase TIDCORP's accumulated deficit to P7.143 billion and will result in negative capital of P1.228 billion.

As stated in Note 2.1(d), these events or conditions, along with other matters set forth therein and in Note 28 on the *Planned Consolidation of the Guarantee Programs of the National Government* and Note 29.1(e) on the *Deficiency Tax Assessment and Tax Cases*, indicate that uncertainty remains that may affect the Corporation's ability to continue as a going concern. However, despite these adverse conditions, the payment of obligations incurred by TIDCORP is fully guaranteed by the Government of the Republic of the Philippines pursuant to Section 9 of Presidential Decree No. 1080, as amended.

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

Those charged with governance are responsible for overseeing TIDCORP'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 an 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 TIDCORP'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 TIDCORP'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 TIDCORP 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 communicated 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 required under Revenue Regulation Nos. 15-2010 and 19-2011 in Note 29 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 supplementary information is the responsibility of the Management of TIDCORP. Because of the significance of the matter described in the *Basis for Adverse 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
OIC Supervising Auditor

May 17, 2018