



INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Philippine Guarantee Corporation
17th Floor, BDO Towers Valero
8741 Paseo de Roxas Street, Makati City

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited 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, 2021 and 2020, 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 and other explanatory information.

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 the financial position of PHILGUARANTEE as at December 31, 2021 and 2020, and its financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Bases for Adverse Opinion

The following identified material misstatements are deemed pervasive to the accompanying financial statements of PHILGUARANTEE:

- Collections arising from the disposition of acquired real and other properties recorded under Deferred Credits account were not appropriately adjusted to the Sales Contract Receivable account which is not in accordance with the fair presentation mandated by Philippine Accounting Standards (PAS) 1 – *Presentation of Financial Statements*, resulting in the overstatement of the Deferred Credits and Sales Contract Receivable accounts by P886.567 million and P902.035 million as at December 31, 2021 and 2020, respectively.
- Dividends Payable recognized at end of year were not computed in accordance with Republic Act No. 7856 and its 2016 Revised Implementing Rules and Regulations, resulting in the understatement by P354.120 million and overstatement by P2.340 million of the balances of the account as at December

31, 2021 and 2020, respectively, and misstatement of the Retained Earnings account by the same amounts as at even dates.

- The quantitative disclosures required under PFRS 7 – *Financial Instruments: Disclosures*, including summary of quantitative data at the end of the reporting period about PHILGUARANTEE's exposure to each type of risk arising from financial instruments are not presented in the notes to the financial statements for CYs 2021 and 2020.
- Other non-operating income of P964.869 million representing partial reversal of previously recognized impairment loss was misclassified as part of service and business income for CY 2021, improperly showing that it arose from the Corporation's ordinary course of business, contrary to the fair presentation mandated by PAS 1 – *Presentation of Financial Statements*.

On the other hand, we were unable to obtain sufficient appropriate audit evidence about the balances of the identified material accounts below. The status of the records of PHILGUARANTEE did not permit us to apply alternative audit procedures to ascertain their accuracy and reliability. Consequently, we were unable to determine whether any adjustments to these accounts were necessary.

- The setting up of allowance for impairment on Investment Property lacks substantial evidence to show that the impairment testing required under PAS 38 – *Impairment of Assets* had been adequately performed, resulting in the unreliability of the reported carrying amounts of Investment Property of P10.396 billion and P10.070 billion as at December 31, 2021 and 2020, respectively.
- The recognition of the Deferred Tax Assets is not supported by convincing evidence that would show sufficiency of future taxable profits against which the related deductible temporary differences may be utilized as required by pertinent provisions of PAS 12 – *Income Taxes*, resulting in the doubtful realizability of the reported Deferred Tax Assets of P1.534 billion and P961.479 million as at December 31, 2021 and 2020, respectively. Based on PHILGUARANTEE's income tax history, there were unused tax losses or net operating loss carryover which had expired and, hence, not utilized.
- The total reported receivables from and payables to the various funds under trust and/or administration by PHILGUARANTEE differ by P395.384 million and P58.532 million, respectively, as at December 31, 2021, and P385.431 million and P76.038 million, respectively, as at December 31, 2020 from that recorded in the separate books of accounts maintained for the various funds as of even dates, resulting in the unreliability of the balances as at December 31, 2021 and 2020 of the Other Assets and Trust Liability accounts, wherein the respective receivables from and payables to the various funds were lodged.

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 PHILGUARANTEE in accordance with the 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 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.

Emphasis of Matter

We draw attention to Note 22.2(b) to the financial statements, which appropriately describes the significant uncertainty related to the outcome of related actions for specific performance in which PHILGUARANTEE is the defendant. The actions seek to compel the Corporation to pay 90 per cent of the guaranteed loans as provided under the pertinent Guarantee Agreements with plaintiff banks. As at December 31, 2021, the Corporation has recognized full provision on the entire guaranteed loans less its share in the estimated recoverable value of the collateral under the related Mortgage Trust Indenture amounting to P2.272 billion. Our opinion is not modified in respect of this matter.

Other Matter

In our report dated July 27, 2021, we did not express an opinion on the financial statements of PHILGUARANTEE as at December 31, 2020 because we were precluded from performing many of our planned audit procedures for identified significant and material accounts due to the non-submission by Management of several of the required financial reports and schedules, records, supporting documents and other relevant data. Accordingly, 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 expected credit losses, receivables, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

In connection with our current audit, the required financial reports and schedules, records, supporting documents and other relevant data for CY 2020 were substantially provided. As such, we were able to perform the required audit procedures and obtain the necessary sufficient appropriate audit evidence to provide a basis for an audit opinion on the CY 2020 restated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended December 31, 2021, but does not include the financial statements and our auditor's report thereon. The Annual Report for the year ended December 31, 2021 is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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 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 PHILGUARANTEE'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

PHILGUARANTEE'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 PHILGUARANTEE 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

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 31 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 PHILGUARANTEE. Because of the significance of the matters described in the *Bases for Adverse Opinion* section of our report, 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



August 31, 2022