



REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City

## **INDEPENDENT AUDITOR'S REPORT**

### **THE BOARD OF DIRECTORS**

Philippine Guarantee Corporation  
22<sup>nd</sup> to 24<sup>th</sup> Floors, BPI-Philam Life Building  
6811 Ayala Avenue, 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, 2022 and 2021, 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, 2022 and 2021, 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 uncorrected material misstatements of several accounts have pervasive effects to the accompanying financial statements of PHILGUARANTEE:

- The non-adjustment to the appropriate accounts of collections arising from the disposition of real and other properties acquired (ROPAs) temporarily recorded under the Deferred Credits account 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 account by P147.315 million and P205.304 million as at December 31, 2022 and 2021, respectively, and the over/understatement of the Sales Contract Receivable (SCR), Retained Earnings and Revenue accounts collectively by the same amounts as at even dates.

- The inaccuracies in the determination of the adjustments made to the Deferred Credits, SCR, Retained Earnings and Investment Property accounts amounting to P705.410 million, P410.964 million, P793.618 million and P322.485 million, respectively, to partially apply certain collections arising from the disposition of ROPAs previously lodged under the Deferred Credits account resulted in the misstatement of said accounts as at December 31, 2022 and 2021 by undetermined amounts.
- The inaccurate recognition of deferred taxes on PHILGUARANTEE's future deductible and taxable temporary differences resulted in the understatement of the Deferred Tax Asset (DTA) and Deferred Tax Liability accounts by P12.033 million and P153.144 million as at December 31, 2022 and by P230.994 million and P199.597 million as at December 31, 2021. The reported Income Tax Expense is likewise understated and overstated by P141.110 million and P31.397 million for the years ended December 31, 2022 and 2021, respectively.
- The non-presentation in the notes to financial statements for CYs 2022 and 2021 of several relevant and material quantitative disclosures required under PFRS 7 – *Financial Instruments: Disclosures*, including a summary of quantitative data about PHILGUARANTEE's exposure to each type of risk arising from financial instruments, violates PAS 1 which provides that the notes to financial statements must disclose information required by PFRSs that is not presented elsewhere in the financial statements.

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

- The setting up of allowance for impairment on the Corporation's Investment Property lacks substantial evidence to show that the required impairment testing under PAS 36 – *Impairment of Assets* had been adequately performed, casting doubt on the adequacy of the allowance for impairment provided on the Investment Property account amounting to P1.904 billion and P1.194 billion, as at December 31, 2022 and 2021, respectively.
- The presence of unreconciled variances between the total reported receivables from and payables to the various funds under trust and/or administration by PHILGUARANTEE and that recorded in the separate books of accounts maintained for the various funds by P221.197 million and P78.669 million, respectively, as at December 31, 2022, and P236.021 million and P72.909 million, respectively, as at December 31, 2021, casts doubt on the reliability of the balances as at December 31, 2022 and 2021 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 23.2 to the financial statements, which appropriately describes two significant legal matters involving PHILGUARANTEE. The first concern is the status of the implementation of the Memorandum of Agreement (MOA) dated February 16, 2021 entered into by and between the Corporation and a plaintiff essentially agreeing to settle their disputes as regards their claims on an Asset Pool. As at December 31, 2022, the parties are yet to execute the necessary closing documents in order to fully implement said MOA. The second discusses the significant uncertainty related to 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, 2022, PHILGUARANTEE 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 these matters.

#### *Other Matter*

In our report dated August 31, 2022, we modified our opinion on the fairness of presentation of the financial statements of PHILGUARANTEE as at December 31, 2021 partly due to the effects of the following:

- Dividends Payable recognized at year-end were not computed in accordance with Republic Act No. 7656 and its 2016 Revised Implementing Rules and Regulations, resulting in the understatement of the account by P354.120 million as at December 31, 2021 and overstatement of the Retained Earnings account by the same amount as at even date.
- 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 PHILGUARANTEE's ordinary course of business, contrary to the fair presentation mandated by PAS 1.
- The recognition of the DTA 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 DTA of P1.534 billion as at December 31, 2021. Based on PHILGUARANTEE's income tax history, there were unused tax losses or net operating loss carryover which had expired and, hence, not utilized.

Management already adjusted the Dividends Payable and Other Non-operating Income as at or for the year ended December 31, 2021, and restated the balances in the CY 2021

financial statements. Management likewise has submitted the required convincing evidence to show sufficiency of taxable profits, thus, establishing the realizability of the reported DTA as at even date. Accordingly, our opinion on the restated CY 2021 financial statements, as presented herein, is no longer modified concerning these matters.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the PHILGUARANTEE's Annual Report for the year ended December 31, 2022, but does not include the financial statements and our auditor's report thereon. The Annual Report for the year ended December 31, 2022 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 32 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**



**MOHAMMAD MUARIFF S. BALANG**  
OIC Supervising Auditor

June 30, 2023