



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Power Sector Assets and Liabilities
Management Corporation
Ayala Avenue, Makati City

Report on the Financial Statements

We have audited the accompanying financial statements of Power Sector Assets and Liabilities Management Corporation, which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles generally accepted in the Philippines, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualified Opinion

The existence of the Property Plant and Equipment (PPE) and Assets Held for Sale (AHS) accounts stated at P29.693 billion and P19.589 billion, respectively, could not be ascertained due to incomplete physical inventory taking such that no physical inventory was conducted for PPE and AHS amounting to P2.217 billion (7 per cent) and P6.232 billion (32 per cent), respectively;

The validity and completeness of "Asset in Trust with NPC" account of PSALM with year-end balance of P4.170 billion were not ascertained due to its non-reconciliation with the "Trust Liability to PSALM" account of P7.291 billion, the reciprocal account maintained by NPC for fund transfers for the operation and maintenance of the generation and other assets under the Operation and Management Agreement (OMA) between PSALM and NPC, registering a variance of P3.121 billion.

The validity and accuracy of the year-end balances of accounts *Due from GOCCs and NGAs, Other Receivables, Accounts Payable and Accrued Expenses*, and *Due to GOCCs and NGAs* amounting to P94.488 billion, P4.445 billion, P28.876 billion and P54.226 billion, respectively, could not be determined due to incomplete documentation and accounting records.

The year-end balance of *Power Receivables - Current* amounting to P43.723 billion was not presented at its net realizable value due to inadequate provision for allowance for doubtful accounts amounting to P1.109 billion.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Power Sector Assets and Liabilities Management Corporation as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with state accounting principles generally accepted in the Philippines.

Emphasis of Matter

We draw attention to Note 39 to the financial statement which describes the uncertainties relating to the outcome of the various legal and administrative proceedings including litigation and proceedings related to electricity charges and challenges to certain provisions of the EPIRA. Our opinion is not qualified in respect of this matter.

Other Matter

Our audit disclosed that the National Grid Corporation of the Philippines (NGCP) was allowed to prepay its 10th to 30th deferred payments for concession fees amounting to P57.883 billion even if NGCP's obligations due to TransCo amounting to P2.531 billion were not yet settled contrary to Section 6.07 of the Concession Agreement. As a result, PSALM/TransCo lost the opportunity to earn interest income of at least at P31.025 billion.

Report on the Supplementary Information Required Under BIR Revenue Regulations 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 36 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 information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


MINERVA T. CABIGTING
Supervising Auditor

May 29, 2014