



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, 2014, 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 net carrying value of the Property, Plant and Equipment (PPE) accounts stated at P41.144 billion was overstated due to: (a) inclusion of Sucat Gas Turbine amounting to P259.268 million already sold; (b) non-provision of allowance for depreciation for PPE accounts amounting to P7.639 billion; and (c) inadequate allowance for depreciation for non-utility plants amounting to P639.196 million.

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, 2014, 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 statements 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 and the judgment on the back wages claims of the NPC Drivers and Mechanic Association (DAMA) for which NPC and PSALM were the Respondents. Our opinion is not qualified in respect of this matter.

Other Matter


Our audit disclosed that no forceful action has been taken by PSALM to compel the National Grid Corporation of the Philippines (NGCP) to settle its outstanding obligations with the National Transmission Corporation (TRANSCO) amounting to P3.041 billion. This non-settlement was caused by the PSALM's action allowing the NGCP to make prepayment of the 10th up to 30th deferred payments for concession fees of P57.883 billion in CY 2013, even if its obligations with TRANSCO amounting to P2.531 billion have not been settled yet, contrary to Section 6.07 of the Concession Agreement between PSALM and the NGCP. The prepayment was made apparently to avoid paying interest rate of 8% per annum.

Likewise, Receivables from South Premiere Power Corporation (SPPC), an Independent Power Producer Administrator (IPPA), of P13.466 billion for generation payments to PSALM remained uncollected as at year-end, contrary to Section 8.2 of the Administration Agreement (AA). These receivables consisted of SPPC-disputed amount of P5.663 billion covering the period CY 2010 to CY 2012, and P7.802 billion undisputed amount covering the period for CY 2013 to CY 2014. As a result, the revenues that had been so far collected from SPPC, from the operation of the Ilijan Gas Fired Combined Cycle Power Plant were not sufficient to enable PSALM to pay for the capacity fees and energy fees due to IPP (KEPCO Ilijan Corp), as well as the fuel expenses and other related expenses necessary for the operation of the said Power Plant and for the amortization of the outstanding loans of PSALM. Despite the uncollected generation payments from the SPPC, PSALM Management has not initiated any action to terminate the Agreement contrary to Section 19.1 of the said Agreement.

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. CARIGTING
State Auditor / Supervising Auditor

May 29, 2015