INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Power Sector Assets and Liabilities Management Corporation
24th Floor Vertis North Corporate Center 1
Astra corner Lux Drives
North Avenue, Quezon City 1105

Report on the Audit of Financial Statements

Qualified Opinion

We have audited the financial statements of **Power Sector Assets and Liabilities Management Corporation (PSALM)**, which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of financial performance, statements of changes in net assets/equity and statements of cash flows for the years then ended, and statement of comparison of budget and actual amounts for the year ended December 31, 2020, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Bases for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the PSALM as at December 31, 2020, and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Bases for Qualified Opinion

The faithful representation of the Inter-Agency Receivables of P9.274 billion as at December 31, 2020, was not ascertained, contrary to paragraphs 27 and 36 of IPSAS 1, primarily due to the inclusion of transferred accounts without supporting documents amounting to P4.804 billion from the National Power Corporation (NPC) by virtue of the Electric Power Industry Reform Act of 2001 (EPIRA). Similarly, the faithful representation of the Asset in Trust with NPC with balance of P4.188 billion as at December 31, 2020, comprising of various inter-agency asset accounts recorded in the Other Assets and Inter-Agency Receivables accounts was not established due to unreconciled total variance of P321.225 million with NPC's Trust Liability to PSALM.

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of PSALM in accordance with the Revised 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 audit of the financial statements, 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 qualified opinion.

Emphasis of Matter

We draw attention to Note 33 to the financial statements which describes the commitments and contingencies relating to various pending legal and administrative cases involving PSALM, including litigation and proceedings related to electricity charges and challenges to certain provisions of the EPIRA.

We also draw attention to Note 33.6 thereof which disclosed that on February 14, 2018, PSALM and TransCo received a notice of arbitration filed by the National Grid Corporation of the Philippines (NGCP) under the rules of the Singapore International Arbitration Centre for alleged violations of the Concession Agreement. The Parties submitted their respective draft list of issues on November 15, 2019, and Request for Document Production on November 29, 2019. Pursuant to the Revised Procedural Timetable, the hearing will begin on the second quarter of 2021. No further information can be provided on this proceeding in compliance with the confidentiality requirements under Republic Act No. 9285 or the Alternative Dispute Resolution Act of 2004. The foregoing notes to financial statements may be affected by the on-going arbitration proceedings.

Our opinion is not qualified in respect of these matters.

Other Matter

In our report dated July 27, 2020, we expressed a qualified opinion on the 2019 financial statements because of the non-recognition of Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL) in the books amounting to P585.710 million and P2.320 billion, respectively for the amounts of income taxes recoverable (settlement) in future periods relative to deductible/taxable temporary differences, carry forwards of unused tax losses, and unused tax credits, required under IPSAS 1, IAS 12 and COA Circular No. 2020-002. For CY 2020, PSALM disclosed in Note 28 the issue thereof as a requirement of paragraphs 81 and 82 of IAS 12, which we evaluated and found adequate. Accordingly, our present opinion on the CY 2019 financial statements is no longer qualified concerning this matter.

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 IPSASs, 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 the PSALM'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 the PSALM or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PSALM'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 the PSALM'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 the PSALM'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 the PSALM 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.

Report on Other 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 Regulations 15-2010 in Note 29 to the financial statements is presented for the purpose 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 management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, except for the possible effects of the matters described in the Bases for Qualified Opinion paragraphs, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

CYNTHIA C. HERRERA
OIC-Supervising Auditor

May 27, 2021