



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

## **INDEPENDENT AUDITOR'S REPORT**

### **THE BOARD OF ADMINISTRATORS**

National Electrification Administration  
57 NEA Building, NIA Road, Government Center  
Barangay Pinyahan, Diliman, Quezon City 1100

### **Report on the Audit of the Financial Statements**

#### ***Qualified Opinion***

We have audited the financial statements of **National Electrification Administration (NEA)**, which comprise the statements of financial position as at December 31, 2019 and 2018, 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, 2019, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the NEA as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Public Sector Accounting Standards (IPSASs).

#### ***Basis for Qualified Opinion***

The balance of Loans Receivable - Power Sector Assets and Liabilities Management Corporation (PSALM) amounting to P2.155 billion as of December 31, 2019 has an unreconciled variance of P350.329 million with PSALM as disclosed in its Notes to Financial Statements which is contrary to Appendix B of IPSAS 1 – Presentation of Financial Statements. An Allowance for Impairment Loss amounting to P350.329 million was provided in CY 2019 for fair presentation in the financial statements, however, the related Impairment Loss was recognized as prior period adjustment instead of current year which is a departure from assessing financial asset for any impairment at the end of each reporting period as required by IPSAS 29 - Financial Instruments: Recognition and Measurement. This resulted in the understatement of Impairment Loss account by P350.329 million and overstatement of Prior Period Adjustment account by the same amount.

Moreover, the validity of a prior period adjustment of P20.336 million on government equity is doubtful as it was made without supporting documents and the corresponding credit to Capital Stock account was not reflected in the Statement of Changes in Net Assets/Equity which is a departure from faithful representation of financial reporting as required under

Section 3.10 of the Conceptual Framework for General Purpose Financial Reporting (GPFR) by Public Sector Entities.

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 the NEA 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.

### ***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 NEA'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 NEA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the NEA'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 NEA'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 NEA'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 NEA 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 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 required by the Bureau of Internal Revenue on taxes, duties and license fees disclosed in Note 27 to the financial statements is presented for purposes of additional analysis and is not a required part of 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 effect of the information of the matter described in the Basis for Qualified Opinion Section, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **COMMISSION ON AUDIT**

  
**GLORINA B. SUSON**  
Supervising Auditor

July 23, 2020