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

CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4 - INDUSTRIAL AND AREA DEVELOPMENT

NATIONAL DEVELOPMENT COMPANY
CORPORATE SUPPORT GROUP
Received by: CZANNIS D. GILHANG
Date: June 19, 2025
Time: 6:44 PM

June 19, 2025

THE BOARD OF DIRECTORS
National Development Company
116 Tordesillas Street
Salcedo Village, Makati City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the National Development Company (NDC) for the years ended December 31, 2024, and 2023.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and the Status of Implementation of Prior Year's Audit Recommendations.

The Auditor rendered an unqualified opinion on the fairness of the presentation of the financial statements of the NDC.

The following are the significant audit observations and recommendations that need immediate action:

1. The faithful representation of NDC's Investment Property (IP) account amounting to P32.011 billion cannot be ascertained due to: a) inadequate disclosure; and b) inconsistencies between the records of NDC's work groups relative to the total area and status of investment properties, which are not in accordance with the specific provisions of Philippine Accounting Standard (PAS) 1.

   We recommended that Management:

   a. Ensure proper coordination between the Accounting Unit, the Asset Management Group, the Treasury Unit, and the Legal Department to facilitate periodic reconciliation and updating of records of NDC's investment properties. Schedule of IP account, as an attachment to the Notes to Financial Statements, shall be validated and verified by these Offices;

   b. Determine and reconcile the variances and inconsistencies noted in Table 1. Take appropriate action, as warranted;

c. Disclose relevant information on existing conditions, limitations, and/or restrictions of investment properties, including changes in the account, in accordance with specific provisions of PAS 1 and 40. Periodically assess the information disclosed in the Notes to Financial Statement; and

d. Determine the existing conditions, limitations, and/or restrictions of investment properties, and ensure that this information is made available to independent appraiser/s for consideration in the appraisal of each investment property.

2. Variances between the Rental Receivable balances per NDC books of accounts and confirmation results amounting to P25.966 million, and inadequate disclosure on long outstanding rental receivables aggregating P11.901 million, are contrary to Paragraphs 15 and 17 of PAS 1, respectively, affecting faithful representation of the Current Receivable account in the financial statements.

   We recommended that Management:

   a. Coordinate with the concerned lessees to reconcile the variance with NDC records. Make necessary adjusting entry and/or demand collection therefrom, as the case may be. Furnish the Audit Team a copy of the reconciliation made and/or letters sent to lessees;

   b. Prepare a detailed aging schedule of outstanding rental receivables to properly assess the need for recognition of an allowance for impairment, in accordance with NDC's accounting policy. Furnish the Audit Team a copy thereof;

   c. Provide a detailed explanation and submit supporting documentation to substantiate Management's representation on the cessation of accruing rental income from Philippine Pharma Procurement, Inc., in compliance with Bangko Sentral ng Pilipinas Circular No. 1011; and

   d. Prepare and submit necessary and appropriate disclosures, such as those relating to the collectability/ impairment of receivables or the status of debtor's operations, to achieve fair presentation of the Receivables account. Periodically review and assess the adequacy and relevance of the information disclosed in the Notes to Financial Statements in compliance with PAS 1.

3. The faithful representation of the recorded Property and Equipment (PE) account with carrying amount of P190.296 million was not attained, due to: a) variances amounting P8.630 million between the balances of PE items in the Subsidiary Ledgers (SLs) and those in the lapsing schedule used to compute depreciation/accumulated depreciation; and b) missing PE items costing P31.170 million that still remain in NDC's books, contrary to Paragraph 15 of PAS 1.

   We recommended that Management:

   a. Reconcile the PE balances in the Lapsing Schedule against SLs and reflect changes in the Financial Statements, if warranted;

   b. Perform regular monitoring and reconciliation of both records;

c. Submit the list of non-existing/missing PE items in the Report on the Physical Count of Property, Plant and Equipment, and investigate to determine accountability over the missing PE items;

d. File a request for authority to derecognize/write-off non-existing/missing PE items from COA, duly supported with required documentation, if no person can be found accountable after investigation, pursuant to COA Circular No. 2020-006 dated January 31, 2020;

e. Prepare an updated Inventory and Inspection Report of Unserviceable Property for calendar year (CY) 2024, and instruct the disposal Committee to undertake immediate disposal of the remaining idle and unserviceable PE items; and

f. Direct the Accounting Unit to derecognize the unserviceable PE items in the books of accounts upon disposal or when no future economic benefits are expected from their use.

4. The NDC has yet to decide on the final disposition of the remaining 36,839.98 square meter (sq. m.) portion of the Pandacan Property, after negotiating the sale of 13,297.97 sq. m. to Toll Regulatory Board (TRB), affected by the Right-of-Way of the Metro Manila Skyway Stage 3 Project; meanwhile, the property is underutilized.

   We recommended that Management:

   a. Apprise the Audit Team on the status of annotation of Deeds of Absolute Sale in the Transfer Certificate of Title and provide documentation thereof. Once annotated, demand payment of the remaining 50 per cent from TRB;

   b. Facilitate the negotiation with TRB for the acquisition of the remaining portion of the Pandacan Property, in accordance with the Memorandum of Agreement and the Department of Public Works and Highways (DPWH) Department Orders. Meanwhile, study available options for NDC to maximize the utilization of the subject property; and

   c. Provide justification for Management's decision to reconsider the demand for compensation on the unauthorized use/occupation by the former NDC lessee.

5. Several investment properties are either idle/vacant or occupied by illegal occupants, depriving NDC of potential income, while incurring Real Property Taxes, Security Services, and Repairs and Maintenance expenses, aggregating P36.028 million in CY 2024, contrary to Section 2 (b) of Republic Act (RA) No. 10149, resulting in the underutilization of NDC properties.

   We reiterated our previous year's recommendations that Management:

   a. Continue its efforts to promote and advertise all idle/vacant properties to attract prospective lessees and/or buyers. Study other options available to NDC for the best and productive use of the properties;

   b. Determine whether Brgy. Biaan, Mariveles, Bataan Property is within the Ancestral Domain/Lands or belonging to Indigenous Cultural Communities/Indigenous Peoples;

c. Furnish the Audit Team a copy of DPWH's Notice of Taking on the portion of Brgy. Alas-asin, Mariveles, Bataan, that will be affected by the Bataan-Cavite Project, and subdivision/survey plan, if available;

d. Coordinate with the Local Government Unit and the school administration to determine whether Lot 3 can still be pursued for possible school expansion with reference to the Brgy. Batangas II, Mariveles, Bataan properties;

e. Consider pursuing legal action against informal settlers/occupants of various vacant properties. Otherwise, collect compensation therefrom;

Further, apprise the Audit Team of the status of actions taken on the following investment properties and provide supporting documents, if any:

f. On the coordination with Municipal Urban Development and Housing Board-Local Inter-Agency Committee for the verification and validation of NDC's title over the Los Baños, Laguna property;

g. On the coordination with the heir and/or his/her legal counsel for the lease negotiation on the affected portion of Sta. Rosa, Laguna Property; and

h. On the result of the query with Department of Human Settlements and Urban Development (DHSUD), whether Management's intention to use NDC properties eyed for Pambansang Pabahay Para sa Pilipino (4PH) Program for income-generating activities is allowed, pending the expropriation and/or transfer of ownership of NDC properties to DHSUD.

6. The preliminary design and construction studies were not sufficiently carried out in the procurement of Design and Build of the NDC Green Industrial Sustainable Ecozone (NGIE) Project with an Approved Budget for the Contract amounting to P230.108 million, contrary to Item 7 of Annex G of the Revised Implementing Rules and Regulation (RIRR) of RA No. 9184.

We recommended that Management:

a. Determine the necessity of conducting an updated feasibility or preliminary engineering study for the NGIE project;

b. Resolve issues surrounding the NDC Industrial Estate (NDCIE), such as termination of the contract, the settlement with the contractor, and encroachment by adjacent lot owners, among others;

c. Confirm whether NGIE is a continuation of the NDCIE, 2nd phase of NDCIE, or a new project;

d. Determine possible legal issues which may arise, considering that Proclamation No. 677 specifically states that the Special Economic Zone is to be known as NDCIE instead of NGIE; and

e. Henceforth, ensure compliance with the guidelines for the procurement and implementation of contracts for infrastructure projects in accordance with the updated 2016 RIRR of RA No. 9184.

7. The Site Development Works for the NDCIE Project located in Barangay Langkaan II, Dasmariñas City, Cavite, with a contract amount of P171.737 million, remained unfinished despite the adjusted date of completion on January 30, 2024.

   We reiterated our prior year's recommendations that Management:

   a. Develop a definitive action plan to resolve the issues surrounding the NDCIE project, such as soil erosion, delay in implementation of the project, and encroachment by adjacent lot owners, among others;

   b. Determine appropriate action/remedy provided in the site development work Contract and 2016 RIRR of RA No. 9184 on the proper resolution/settlement of the Project;

   c. Implement and monitor adopted action plan/remedies employed, and apprise the Audit Team of the status of the Project; and

   d. Henceforth, ensure compliance with the guidelines for the procurement and implementation of contracts for infrastructure projects in accordance with the updated 2016 RIRR of RA No. 9184.

The audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and personnel during the exit conference conducted on May 22, 2025, are presented in detail in Part II of the report.

In a letter of even date, we requested the Acting General Manager of the NDC to take appropriate action on the recommendations contained in Part II of this report and inform this Office of the actions taken thereon by submitting the Agency Action Plan and Status of Implementation (AAPSI) within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

EMMA V. MOISES
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Senate Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
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CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4 - INDUSTRIAL AND AREA DEVELOPMENT

June 19, 2025

NATIONAL DEVELOPMENT COMPANY
OFFICE OF THE GENERAL MANAGER

Received by: Vanessa Arenas
Date: 06/19/2025
Time: 05:24 pm

Mr. SATURNINO H. MEJIA
Acting General Manager
National Development Company
116 Tordesillas Street
Salcedo Village, Makati City

Dear Mr. Mejia:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the National Development Company (NDC) for the years ended December 31, 2024, and 2023.

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d. File a request for authority to derecognize/write-off non-existing/missing PE items from COA, duly supported with required documentation, if no person can be found accountable after investigation, pursuant to COA Circular No. 2020-006 dated January 31, 2020;

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   c. Implement and monitor adopted action plan/remedies employed, and apprise the Audit Team of the status of the Project; and

   d. Henceforth, ensure compliance with the guidelines for the procurement and implementation of contracts for infrastructure projects in accordance with the updated 2016 RIRR of RA No. 9184.

The audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and personnel during the exit conference conducted on May 22, 2025, are presented in detail in Part II of the report.

We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation (copy attached) within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

EMMA V. MOISES
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
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ANNUAL AUDIT REPORT

on the

NATIONAL DEVELOPMENT COMPANY

For the Years Ended December 31, 2024 and 2023

EXECUTIVE SUMMARY

INTRODUCTION

The National Development Company (NDC) was established as a semi-private corporation on March 10, 1919, through Legislative Act No. 2849, as amended by Legislative Act No. 2873. On November 13, 1936, it became a public corporation through Commonwealth Act No. 182, as amended by Commonwealth Act No. 311, dated June 9, 1938. Pursuant to Presidential Decree No. 1648, NDC was reorganized on October 25, 1979, to be the government's investment arm under the Department of Trade and Industry.

The NDC's mandate is to invest in pioneering and development-oriented projects where private investors are unwilling (because of the high risks or uncertainties involved) or unable to venture into (because of the large investment requirement), but are necessary for the country's development.

On March 10, 2003, Executive Order No. 184 was approved by the President of the Philippines, directing the reorganization and streamlining of NDC by refocusing its operations as the government's investment arm. In fulfilling this role, NDC shall:

- adopt a new philosophy and strategy by sourcing and investing funds in a portfolio of socially relevant and commercially driven projects, the returns from which shall balance out the generation of income streams and ensure sustainable financial returns to uphold the government's shareholder value;

- adopt a more aggressive divestment policy and clearer exit mechanism on its equity investments, which could be best handled by the private sector; and

- act as a holding corporation to manage its subsidiaries where government investments are placed, ensure that their growth potentials are maximized to enhance the government's shareholder value, and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

The NDC is governed, and its activities are directed, controlled, and managed by a Board of Directors composed of nine members and a Chairman.

As of December 31, 2024, NDC has 37 permanent employees and 44 contractual employees. Contractual employees consist of 21 individual contracts of service and 23 institutional contracts of service.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

	2024	2023 (As restated)	Increase (Decrease)
Assets	37,415,970,174	35,810,592,394	1,605,377,780
Liabilities	8,348,613,827	8,055,897,249	292,716,578
Equity	29,067,356,347	27,754,695,145	1,312,661,202

Comparative Results of Operations

	2024	2023 (As restated)	Increase (Decrease)
Income	2,057,373,301	4,823,132,263	(2,765,758,962)
Expenses	249,973,442	235,770,788	14,202,654
Income before income tax	1,807,399,859	4,587,361,475	(2,779,961,616)
Income tax expense	353,847,418	1,136,462,419	(782,615,001)
Net Income	1,453,552,441	3,450,899,056	(1,997,346,615)

SCOPE OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of NDC for the period January 1 to December 31, 2024, in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2024 and 2023. Also, we conducted our audits to assess compliance with pertinent laws, rules, and regulations, as well as adherence to prescribed policies and procedures.

AUDITOR'S OPINION

We rendered an unqualified opinion on the fairness of the presentation of the financial statements of NDC for the years 2024 and 2023.

SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. The faithful representation of NDC's Investment Property (IP) account amounting to P32.011 billion cannot be ascertained due to: a) inadequate disclosure; and b) inconsistencies between the records of NDC's work groups relative to the total area and status of investment properties, which are not in accordance with the specific provisions of Philippine Accounting Standard (PAS) 1.

   We recommended that Management:

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   c. Disclose relevant information on existing conditions, limitations, and/or restrictions of investment properties, including changes in the account, in accordance with specific provisions of PAS 1 and 40. Periodically assess the information disclosed in the Notes to Financial Statement; and

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   c. Submit the list of non-existing/missing PE items in the Report on the Physical Count of Property, Plant and Equipment, and investigate to determine accountability over the missing PE items;

d. File a request for authority to derecognize/write-off non-existing/missing PE items from COA, duly supported with required documentation, if no person can be found accountable after investigation, pursuant to COA Circular No. 2020-006 dated January 31, 2020;

e. Prepare an updated Inventory and Inspection Report of Unserviceable Property for calendar year (CY) 2024, and instruct the disposal Committee to undertake immediate disposal of the remaining idle and unserviceable PE items; and

f. Direct the Accounting Unit to derecognize the unserviceable PE items in the books of accounts upon disposal or when no future economic benefits are expected from their use.

4. The NDC has yet to decide on the final disposition of the remaining 36,839.98 square meter (sq. m.) portion of the Pandacan Property, after negotiating the sale of 13,297.97 sq. m. to Toll Regulatory Board (TRB), affected by the Right-of-Way of the Metro Manila Skyway Stage 3 Project; meanwhile, the property is underutilized.

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Further, apprise the Audit Team of the status of actions taken on the following investment properties and provide supporting documents, if any:

f. On the coordination with Municipal Urban Development and Housing Board-Local Inter-Agency Committee for the verification and validation of NDC's title over the Los Baños, Laguna property;

g. On the coordination with the heir and/or his/her legal counsel for the lease negotiation on the affected portion of Sta. Rosa, Laguna Property; and

h. On the result of the query with Department of Human Settlements and Urban Development (DHSUD), whether Management's intention to use NDC properties eyed for Pambansang Pabahay Para sa Pilipino (4PH) Program for income-generating activities is allowed, pending the expropriation and/or transfer of ownership of NDC properties to DHSUD.

6. The preliminary design and construction studies were not sufficiently carried out in the procurement of Design and Build of the NDC Green Industrial Sustainable Ecozone (NGIE) Project with an Approved Budget for the Contract amounting to P230.108 million, contrary to Item 7 of Annex G of the Revised Implementing Rules and Regulation (RIRR) of RA No. 9184.

   We recommended that Management:

   a. Determine the necessity of conducting an updated feasibility or preliminary engineering study for the NGIE project;

   b. Resolve issues surrounding the NDC Industrial Estate (NDCIE), such as termination of the contract, the settlement with the contractor, and encroachment by adjacent lot owners, among others;

   c. Confirm whether NGIE is a continuation of the NDCIE, 2nd phase of NDCIE, or a new project;

   d. Determine possible legal issues which may arise, considering that Proclamation No. 677 specifically states that the Special Economic Zone is to be known as NDCIE instead of NGIE; and

   e. Henceforth, ensure compliance with the guidelines for the procurement and implementation of contracts for infrastructure projects in accordance with the updated 2016 RIRR of RA No. 9184.

7. The Site Development Works for the NDCIE Project located in Barangay Langkaan II, Dasmariñas City, Cavite, with a contract amount of P171.737 million, remained unfinished despite the adjusted date of completion on January 30, 2024.

   We reiterated our prior year's recommendations that Management:

   a. Develop a definitive action plan to resolve the issues surrounding the NDCIE project, such as soil erosion, delay in implementation of the project, and encroachment by adjacent lot owners, among others;

   b. Determine appropriate action/remedy provided in the site development work Contract and 2016 RIRR of RA No. 9184 on the proper resolution/settlement of the Project;

   c. Implement and monitor adopted action plan/remedies employed, and apprise the Audit Team of the status of the Project; and

   d. Henceforth, ensure compliance with the guidelines for the procurement and implementation of contracts for infrastructure projects in accordance with the updated 2016 RIRR of RA No. 9184.

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

As of December 31, 2024, the total audit suspensions, disallowances, and charges issued in the audit of various NDC transactions amounted to P20.845 million, details of which are included in Part II of this report.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 54 audit recommendations embodied in the prior year's Annual Audit Report, 29 were fully implemented/reconsidered, and 25 were not implemented, thus, reiterated in Part II of this Report. Details are presented in Part III of this Report.

TABLE OF CONTENTS

PART I

AUDITED FINANCIAL STATEMENTS

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4- INDUSTRIAL AND AREA DEVELOPMENT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
National Development Company
Makati City

Report on the Audit of the Financial Statements

Unqualified Opinion

We have audited the financial statements of National Development Company (NDC), which comprise the statements of financial position as at December 31, 2024 and 2023, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NDC as at December 31, 2024, and 2023, and its financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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 Responsibility for the Audit of the Financial Statements section of our report. We are independent of the NDC 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 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 opinion.

Emphasis of Matter

We draw attention to Note 16 – Investment Property which discusses the uncertainty on the valuation of NDC's right of use on parcels of land pertaining to the 306,409 square meters (sq. m.) portion of Bugo, Cagayan de Oro City Property. Relative thereto, the renewal of the Foreshore Lease Agreement on the 115,657 sq. m was not yet approved, while the nature of the right of use on the 190,752 sq. m. portion is yet to be established; thus, the fair value of NDC's rights over the said property could not be measured. Our opinion is not modified with respect to these matters.

Also, we draw attention to Note 38 to the financial statements that disclosed that the NDC became a party litigant to several cases/petitions filed for or against NDC, and are pending before the appellate courts, the lower courts, and certain administrative bodies. These cases involve civil actions for collection of sums of money, reconveyance of property/title, payment of just compensation, specific performance, and action for refund of taxes withheld. Since the outcome of the cases cannot be determined, claims for assets and provisions for any liability that may result have not been recognized in the financial statements. Our opinion is also not modified with respect to this matter.

Responsibilities of Management and Those Charged with Governance of the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 NDC'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 NDC or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing NDC's financial reporting process.

Auditor's Responsibility 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 controls.

- 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 NDC'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 NDC'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 NDC 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 under Revenue Regulations No. 15-2010 in Note 40 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 auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

Atty. DENNIS CRC DE LEON
OIC - Supervising Auditor

May 22, 2025

NATIONAL DEVELOPMENT COMPANY
Enabling the future.

BAGONG PILIPINAS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of National Development Company (NDC) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2024 and 2023, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing NDC'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 NDC or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing NDC's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stakeholders and other users.

The Commission on Audit has audited the financial statements of NDC in accordance with the International Standards of Supreme Audit Institutions, and in its report to the Board of Directors, has expressed its opinion on the fairness of the presentation upon completion of such audit.

SEC. MARIA CRISTINA ALDEGUER-ROQUE
NDC Chairman of the Board

SATURNINO H. MEJIA
General Manager

JOYCE ANNE N. ALIMON
Assistant General Manager - Finance and Subsidiaries Group

May 22, 2025

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF FINANCIAL POSITION
December 31, 2024 and 2023
(In Philippine Peso)

	Note	**2024**	2023 (As restated)	January 1, 2023 (As restated)
ASSETS				
Current Assets				
Cash and cash equivalents	7	**982,533,498**	215,581,117	255,664,554
Other investments	8	**421,382,295**	1,017,866,401	1,627,432,908
Receivables, net	9	**636,099,463**	242,335,814	202,564,214
Inventories	10	**1,510,839**	1,671,740	1,627,648
Other current assets	11	**770,765,146**	687,854,590	32,203,493
Total Current Assets		**2,812,291,241**	2,165,309,662	2,119,492,817
Non-Current Assets				
Financial assets	12	**1,325,020,085**	1,354,658,550	1,395,461,736
Investments in associates/affiliates	13	**258,116,323**	227,769,313	246,804,019
Investments in subsidiaries	14	**402,315,129**	402,315,129	402,315,129
Other investments	15	**277,446,890**	196,446,890	196,446,890
Receivables, net	9	**111,657,408**	65,611,059	79,362,457
Investment property	16	**32,011,008,107**	31,181,339,370	26,742,372,204
Property and equipment, net	17	**190,296,414**	188,287,666	71,941,780
Other non-current assets	18	**27,818,577**	28,854,755	42,450,117
Total Non-Current Assets		**34,603,678,933**	33,645,282,732	29,177,154,332
TOTAL ASSETS		**37,415,970,174**	35,810,592,394	31,296,647,149
LIABILITIES AND EQUITY				
Current Liabilities				
Financial liabilities	19	**627,418,517**	640,854,846	615,622,488
Inter-agency payables	20	**20,705,975**	23,645,190	16,848,402
Trust liabilities	21	**107,482,499**	11,696,380	32,192,806
Deferred credits/unearned income	22	**19,072,253**	25,918,915	9,880,921
Provisions	23	**326,512,591**	322,275,371	316,463,017
Other payables	24	**7,184,057**	2,335,631	796,913
Total Current Liabilities		**1,108,375,892**	1,026,726,333	991,804,547
Non-Current Liabilities				
Deferred tax liability	32	**7,190,624,474**	6,986,164,835	5,878,776,338
Trust liabilities	21	**49,613,461**	43,006,081	37,922,385
Total Non-Current Liabilities		**7,240,237,935**	7,029,170,916	5,916,698,723
Equity	33	**29,067,356,347**	27,754,695,145	24,388,143,879
TOTAL LIABILITIES AND EQUITY		**37,415,970,174**	35,810,592,394	31,296,647,149

The notes on pages 9 to 69 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2024 and 2023
(In Philippine Peso)

	Note	**2024**	2023 (As restated)
INCOME			
Business income	25	**445,051,376**	370,794,205
Gains	26	**1,605,416,986**	4,446,304,644
Other non-operating income	27	**6,904,939**	6,033,414
		2,057,373,301	4,823,132,263
EXPENSES			
Personnel services	28	**62,280,914**	50,863,225
Maintenance and other operating expenses	29	**160,059,606**	148,358,708
Financial expenses	30	**3,848,178**	3,925,826
Non-cash expenses	31	**23,784,744**	32,623,029
		249,973,442	235,770,788
INCOME BEFORE INCOME TAX		**1,807,399,859**	4,587,361,475
INCOME TAX EXPENSE			
Current tax	32	**149,387,779**	29,073,922
Deferred tax	32	**204,459,639**	1,107,388,497
NET INCOME		**1,453,552,441**	3,450,899,056
Other comprehensive income	12	**15,400,080**	4,804,810
TOTAL COMPREHENSIVE INCOME		**1,468,952,521**	3,455,703,866

The notes on pages 9 to 69 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2024 and 2023
(In Philippine Peso)

	Note	Share Capital (Note 33)	Share in Revaluation Increments of Associates	Accumulated Other Comprehensive Income	Retained Earnings (Note 34)	Total
Balances, December 31, 2022		**8,602,803,483**	**28,883,100**	**63,059,760**	**15,911,094,674**	**24,605,841,017**
Correction of prior years' errors	35	0	0	0	(217,697,138)	(217,697,138)
Balances, January 1, 2023, as restated		**8,602,803,483**	**28,883,100**	**63,059,760**	**15,693,397,536**	**24,388,143,879**
Changes in Equity for 2023						
Net income for the year		0	0	0	3,450,899,056	3,450,899,056
Dividends	37	0	0	0	(89,152,600)	(89,152,600)
Other comprehensive income for the year						
Unrealized gain on financial assets at FVOCI	12	0	0	4,804,810	0	4,804,810
Balances, December 31, 2023, as restated		**8,602,803,483**	**28,883,100**	**67,864,570**	**19,055,143,992**	**27,754,695,145**
Changes in Equity for 2024						
Net income for the year		0	0	0	1,453,552,441	1,453,552,441
Dividends	37	0	0	0	(156,291,319)	(156,291,319)
Other comprehensive income for the year						
Unrealized gain on financial assets at FVOCI	12	0	0	15,400,080	0	15,400,080
Balances, December 31, 2024		**8,602,803,483**	**28,883,100**	**83,264,650**	**20,352,405,114**	**29,067,356,347**

The notes on pages 9 to 69 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2024 and 2023
(In Philippine Pesos)

	Note	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Collection of rentals		**240,509,043**	250,758,880
Collection of interest		**19,639,849**	33,422,658
Dividends received		**11,764,403**	13,858,937
Collection of receivables		**8,167,779**	19,596,794
Miscellaneous collections		**1,745,235**	2,951,787
Total Cash Inflows		**281,826,309**	320,589,056
Cash Outflows			
Payment to suppliers and service providers		**210,613,643**	244,243,506
Payment of taxes and licenses		**243,002,419**	53,213,999
Payment of salaries and benefits to officers and employees		**48,588,403**	52,995,076
Total Cash Outflows		**502,204,465**	350,452,581
Net cash used in operating activities		**(220,378,156)**	(29,863,525)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Proceeds/placements on investments		**795,391,504**	77,784,504
Proceeds from disposal of assets		**379,073,235**	390,378
Collection of loans		**860,972**	132,550
Total Cash Inflows		**1,175,325,711**	78,307,432
Cash Outflow			
Equity Investment		**81,000,000**	0
Loan released		**45,700,000**	0
Total Cash Outflow		**126,700,000**	0
Net cash provided by investing activities		**1,048,625,711**	78,307,432
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Inflow			
Inter-Agency Transfer of Funds	11	**95,000,000**	0
Total Cash Inflow		**95,000,000**	0
Cash Outflow			
Payment of dividends	37	**156,291,319**	89,152,600
Total Cash Outflow		**156,291,319**	89,152,600
Net cash used in financing activities		**(61,291,319)**	(89,152,600)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(3,855)**	625,256
NET INCREASE IN CASH AND CASH EQUIVALENTS		**766,952,381**	(40,083,437)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**215,581,117**	255,664,554
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**982,533,498**	215,581,117

The notes on pages 9 to 69 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The National Development Company (NDC) was established as a semi-private corporation on March 10, 1919, through Legislative Act (LA) No. 2849, as amended by LA No. 2873. It was authorized to engage in commercial, industrial, and other enterprises essential to the country's economic development.

On November 13, 1936, it became a public corporation through Commonwealth Act (CA) No. 182, as amended by CA No. 311, dated June 9, 1938, to implement the economic policies of the National Government (NG) and play an active role in the development of natural resources.

Presidential Decree No. 1648, issued on October 25, 1979, revised the NDC Charter and reorganized the NDC to be the government’s investment arm under the Department of Trade and Industry (DTI). The NDC’s mandate is to invest in pioneering and development-oriented projects where private investors are unwilling (because of the high risks or uncertainties involved) or unable to venture into (because of the large investment requirement) but are necessary for the country’s development.

On March 10, 2003, Executive Order (EO) No. 184 was issued directing the reorganization and streamlining of the NDC by refocusing its operations as the government’s investment arm. In fulfilling this role, NDC shall:

- adopt a new philosophy and strategy by sourcing and investing funds in a portfolio of socially relevant and commercially driven projects, the returns from which shall balance out the generation of income streams and ensure sustainable financial returns to uphold the government’s shareholder value;

- adopt a more aggressive divestment policy and more precise exit mechanism on its equity investments, which could be best handled by the private sector; and

- act as a holding corporation to manage its subsidiaries where government investments are placed, ensure that their growth potentials are maximized to enhance the government’s shareholder value, and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

Further, the NDC was also directed to review its operations, following a set of performance-measuring criteria, to attain its missions, plans, and goals in accordance with the refocused functions.

The Department of Budget and Management approved the new structure of NDC on May 29, 2003, as well as the required staffing pattern and qualification standards for all positions. The corresponding Implementing Rules and Regulations of EO No. 184 were promulgated and approved by the DTI Secretary on August 28, 2003, under DTI Department Order No. 70. With the implementation of EO No. 184, new employees were hired to work and implement the mandate of NDC as the government’s investment arm.

The NDC's principal office is located at the NDC Building, No. 116 Tordesillas St., Salcedo Village, Makati City.

The accompanying financial statements as of December 31, 2024, and 2023 were approved and authorized for issue by the Management on May 22, 2025.

2. GOING CONCERN

The coronavirus disease (COVID-19) outbreak is a severe and unprecedented public health threat. On March 11, 2020, the World Health Organization officially declared COVID-19 a pandemic.

On March 8, 2020, the President of the Philippines signed Proclamation No. 922, declaring a State of Public Health Emergency throughout the country upon the recommendation of the Department of Health following the confirmed local transmission of COVID-19. Subsequently, on March 16, 2020, the President signed Proclamation No. 929, declaring a State of Calamity throughout the Philippines for a period of six months, unless earlier lifted or extended as circumstances may warrant, and imposing an Enhanced Community Quarantine throughout Luzon.

On July 21, 2023, the President of the Philippines signed Proclamation No. 297 lifting the State of Public Health Emergency throughout the Philippines due to COVID-19.

Management assessed that the COVID-19 pandemic had a moderate impact on NDC's operations but could not be considered a sufficient reason to close down its operations in the succeeding years.

3. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the NDC were prepared in accordance with Philippine Financial Reporting Standards (PFRS), which include all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee, Philippine Interpretations Committee and Standing Interpretations Committee as approved by the Financial Reporting Standards Council and Board of Accountancy and adopted by the Securities and Exchange Commission.

Basis of Preparation

Unless otherwise indicated, the NDC's financial statements were prepared using the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the NDC takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and Presentation Currency

These financial statements are presented in Philippine Peso, the currency of the primary economic environment in which the NDC operates. All values represent absolute amounts except when otherwise indicated.

4. NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Amended PFRS

a. *Effective in 2024 that are relevant to the NDC*

   The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS, which the NDC adopted effective for annual periods beginning on or after January 1, 2024:

   - Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback* – The amendments pertain to the addition of subsequent measurement requirements for sale and leaseback transactions. It requires a seller-lessee to account for variable lease payments that arise in a sale-and-leaseback transaction as follows:

     - On initial recognition, include variable lease payments when measuring a lease liability arising from a sale-and-leaseback transaction.

     - After initial recognition, apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognized.

Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation of PFRS 16 in 2019.

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants* - The amendments improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The amendments also respond to stakeholders' concerns about the classification of such a liability as current or non-current.

  The amendments clarify that the classification of liabilities as current or noncurrent is based solely on an entity's right to defer settlement for at least 12 months after the reporting date. The right needs to exist at the reporting date and must have substance.

  Only covenants with which an entity must comply on or before the reporting date affect this right. Covenants to be complied with after the reporting date do not affect the classification of a liability as current or noncurrent at the reporting date. However, disclosure about covenants is now required to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

  The amendments also clarify that the transfer of an entity's own equity instruments is regarded as a settlement of a liability in certain circumstances. If a liability has any equity conversion options, they generally affect its classification as current or noncurrent (e.g. if the conversion option is bifurcated as an embedded derivative from the host debt), unless these conversion options are recognized as equity under PAS 32, *Financial Instruments: Presentation*.

b. *New and amended PFRS issued but not yet effective*

   The new and amended PFRS which are not yet effective for the year ended December 31, 2024, and have not been applied in preparing the financial statements, are summarized below.

   Effective for annual periods beginning on or after January 1, 2025:

- Amendments to PFRS 17, Insurance Contracts – The main changes resulting from Amendments to PFRS 17 are:

  - Deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2023, and change the fixed expiry date for the temporary exemption in PFRS 4 Insurance Contracts from applying PFRS 9 Financial Instruments, so that entities would be required to apply PFRS 9 for annual periods beginning on or after January 1, 2023.

  - Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage, as well as optional scope exclusion for loan contracts that transfer significant insurance risk.

- Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination.

- Clarification of the application of PFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.

- Clarification of the application of contractual service margin attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.

- Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.

- Amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held.

- Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.

- Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.

- Several small amendments regarding minor application issues.

- Amendments to PAS 21, *Lack of Exchangeability* – The amendments apply when one currency cannot be exchanged into another. This may occur, for example, because of government-imposed controls on capital imports and exports, or a limitation on the volume of foreign currency transactions that can be undertaken at an official exchange rate. The amendments clarify when a currency is considered exchangeable into another currency and how an entity estimates a spot rate for currencies that lack exchangeability. The amendments introduce new disclosures to help financial statement users assess the impact of using an estimated exchange rate.

Effective for annual periods beginning on or after January 1, 2026:

- Amendments to PFRS 9 and PFRS 7, *Amendments to the Classification and Measurement of Financial Instruments* - Clarifies that financial assets and financial liabilities are recognized and derecognized at the settlement date, except for regular way purchases or sales of financial assets and financial liabilities meeting conditions for a new exception. The new exception permits companies to elect to derecognize certain financial liabilities settled via electronic payment systems earlier than the settlement date.

They also provide guidelines to assess contractual cash flow characteristics of financial assets, which apply to all contingent cash flows, including those arising from environmental, social, and governance (ESG)-linked features.

Additionally, these amendments introduce new disclosure requirements and update others.

Effective for annual periods beginning on or after January 1, 2027:

- PFRS 18 replaces PAS 1, *Presentation and Disclosure in Financial Statements* - The changes, which primarily affect the income statement, include the requirement to classify income and expenses into three new categories – operating, investing, and financing – and present subtotals for operating profit or loss and profit or loss before financing and income taxes.

  Further, operating expenses are presented directly on the face of the income statement – classified by nature (e.g., employee compensation), function (e.g., cost of sales), or using a mixed presentation. Expenses presented by function require more detailed disclosures about their nature.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures, Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015, but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the NDC's financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared using the measurement bases specified by PFRS for each type of asset, liability, income, and expense.

Financial Assets

Initial Recognition

Financial assets are recognized in the NDC’s financial statements when the NDC becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the NDC’s financial assets, except for investments classified at fair value through profit or loss (FVTPL).

Classification and Subsequent Measurement

Financial assets are classified into the following specified categories: financial assets at FVTPL, financial assets at fair value through other comprehensive income (FVOCI), and at amortized cost. The classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial Assets at FVTPL

The NDC classifies financial assets as at FVTPL when the financial asset is held for trading and designated upon initial recognition as either held for trading or designated upon initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition, it is a part of an identified portfolio of financial instruments that the NDC manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and is not effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis in accordance with the NDC's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and it is permitted that the entire combined contract be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on the measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income.

As of the reporting date, the NDC does not have financial assets that are classified as fair value through profit or loss.

Financial Assets at Amortized Cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVTPL, impaired or derecognized, and through the amortization process.

Cash and cash equivalents, short-term investments, and receivables fall under this category.

Financial Assets at FVOCI

For debt instruments that meet the contractual cash flow characteristic and are not designated at FVTPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the NDC may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses, and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established unless the dividend clearly represents a recovery of part of the investment's cost. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position.

These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

Financial assets at FVOCI-equity instruments are disclosed in Note 12.

Impairment of financial assets- starting January 1, 2022:

The NDC applies an “expected credit loss” (ECL) model to its financial assets measured at amortized cost and debt investment at FVOCI but not to investment in equity instruments.

Loss allowances are measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and

- *Lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

The NDC measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and

- Other debt securities and bank balances for which credit risk (i.e., the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The NDC has elected to measure loss allowances for receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the NDC considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the NDC’s historical experience, as well as informed credit assessment, including current conditions and forecasts of future economic conditions.

The NDC assumes that a financial asset's credit risk has increased significantly if it is more than two years past due.

The NDC considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the NDC in full without recourse by the NDC to actions such as realizing security (if any is held); or

- The financial asset is more than two years past due.

The maximum contractual period over which the NDC is exposed to credit risk is considered when estimating ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the NDC expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the NDC assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Impairment of financial assets- before January 1, 2022:

Impairment loss is provided when there is objective evidence that the NDC will not be able to collect all amounts due to it in accordance with the original terms of the receivables or when the investment can no longer be recovered.

<u>Derecognition of financial assets</u>

The NDC derecognizes financial assets when the contractual rights to the cash flow from the asset expire or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset to another party. If the NDC neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the NDC recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the NDC retains substantially all the risk and rewards of ownership of a transferred financial asset, the NDC continues to recognize the financial asset and also recognizes collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g., when the NDC retains an option to repurchase part of a transferred asset), the NDC allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial Liabilities and Equity Instruments

Classification as Debt or Equity

Debt and equity instruments issued by the NDC are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial Liabilities

Initial recognition

Financial liabilities are recognized in the NDC's financial statements when the NDC becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the NDC's financial liabilities except for debt instruments classified at FVTPL. In a regular way purchase or sale, financial liabilities are recognized and derecognized, as applicable, using settlement date accounting.

Classification and Subsequent Measurement

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL when the financial liability is held for trading, designated upon initial recognition, either held for trading or designated upon initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis in accordance with the NDC's documented risk management or investment strategy, and information about the NDC is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and Philippine Accounting Standards 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive income. Fair value is determined in the manner described in the notes.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Accounts payable and accrued expenses, inter-agency payables, and loans payable are classified as other financial liabilities.

Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A right to offset must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency, or bankruptcy.

Derecognition of financial liabilities

The NDC derecognizes financial liabilities when, and only when, the NDC's obligations are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized, and the consideration paid and payable is recognized in profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the NDC are recognized at the proceeds received, net of direct issue costs.

Retained earnings

Retained earnings represent accumulated profit and/or loss attributable to equity holders of the NDC after deducting dividends declared. Retained earnings may also include the effect of changes in accounting policy and prior period adjustments.

Investment in Subsidiary

A subsidiary is an entity over which NDC exercises control over the financial and operating policy decisions of the investee.

An investment in a subsidiary is accounted for using the cost method from the date on which the investee becomes a subsidiary. Under the cost method, the investment in a subsidiary is initially measured at cost and presented in the statement of financial position at cost less any accumulated impairment in value.

Investment in a subsidiary is derecognized upon disposal. Any difference between the carrying amount of the investment in a subsidiary and the net proceeds from the disposal is recognized immediately in profit or loss.

Investment in Joint Venture (JV)

A JV is a contractual arrangement whereby the group and other parties undertake an economic activity that is subject to joint control.

Where a group of companies undertakes its activities under JV arrangements directly, the group's share of jointly-controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the venturers and classified according to their nature.

Liabilities and expenses incurred directly with respect to interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the group's share of the output of jointly-controlled assets and its share of JV expenses are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the group and their amount can be measured reliably.

Investment in Associate/Affiliate

An associate is an entity over which NDC has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the investee's financial and operating policy decisions but is not control or joint control over those policies.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. Any excess of the cost of acquisition over the NDC's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognized as implied goodwill, which is included within the carrying amount of the investments and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the NDC's share of the fair values of the identifiable net assets of the associate at the date of acquisition, i.e., discount on acquisition, is immediately recognized in profit or loss in the period of acquisition.

The results of operations and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, which is measured at the lower of carrying amount and fair value less cost to sell. Under the equity method, investments in associates or joint ventures are carried in the statements of financial position at cost and adjusted thereafter to recognize the NDC's share of the profit or loss and other comprehensive income of the associate or joint venture. When the NDC's share of losses of an associate exceeds the NDC's interest in that associate, the NDC discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the NDC has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The NDC's accounting policy for impairment of financial assets is applied to determine whether it is necessary to recognize any impairment loss with respect to its investment in an associate. When necessary, the entire carrying amount of the investment, including goodwill, is tested for impairment in accordance with the NDC's accounting policy on impairment of tangible and intangible assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The NDC discontinues the use of the equity method from the date the investment ceases to be an associate or when the investment is classified as held for sale. When the NDC retains an interest in the former associate and the retained interest is a financial asset, the NDC measures the retained interest at fair value at that date, and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of gain or loss on the disposal of the associate. In addition, the NDC accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the NDC reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when the equity method is discontinued.

Investment Property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the income statement in the period in which they arise.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use, and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of the change. If owner-occupied property becomes an investment property, the NDC accounts for property in accordance with the policy stated under property, plant, and equipment up to the date of change.

Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

- the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Property and equipment are stated in the financial statements at cost less accumulated depreciation, amortization, and any impairment in value.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance, and overhaul costs, are normally recognized in profit or loss in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. The cost of replacing a component of an item of property and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

When parts of an item of property and equipment have different useful lives, these are accounted for as separate items (principal components) of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the property and equipment.

Impairment of Non-financial Assets

At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit and loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Derecognition of Non-financial assets

Non-financial assets are derecognized when they are disposed of or when no future economic benefits are expected from them. Any difference between the carrying value of the asset derecognized, and the net proceeds from derecognition is recognized in profit or loss.

Related Parties

Related party relationships exist when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities that are under common control with the reporting enterprise or between and/or among the reporting enterprise and its key management personnel, directors, or shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the NDC and that the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, which represents the amount of services provided in the normal course of business.

Dividend Income

Dividend income is recognized when the NDC's rights to receive payment have been established, provided that it is probable that the economic benefits will flow to the NDC and the amount of income can be measured reliably.

Interest Income

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Lease Income

Lease income from cancellable lease agreements is recognized when earned in the statement of comprehensive income.

Expense Recognition

Expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in liability has arisen that can be measured reliably. Expenses are recognized in profit or loss on the basis of a direct association between the costs incurred and the earning of specific items of income, on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the lessee.

All other leases are classified as operating leases. Rental payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

The NDC as Lessor

The Contract of Lease entered into by the NDC does not transfer substantially all the risks and benefits of ownership of the asset. The NDC is engaged in a lease with a termination clause, which states that, in case the Contract of Lease is terminated by the Lessor at any time prior to its expiration, the Lessor shall refund the amount representing the unearned portion of the rental to the Lessee. On the other hand, if the Contract of Lease is terminated by the Lessee at any time prior to its expiration, the amount representing the unearned portion of the rental will be deemed forfeited in favor of the Lessor. The rent income from the Contract of Lease is recognized in the statement of comprehensive income.

The NDC determines whether an arrangement is or contains a lease based on its substance. It assesses whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Employee Benefits

Short-term Benefits

Short-term benefits include salaries, bonuses, compensated absences, and other forms of employee benefits that are expected to be settled within one year from the reporting date. Short-term employee benefits are recognized as expenses in the period the related services are provided.

Terminal leave benefits

Terminal leave benefits are computed based on the actual leave credits earned by employees as of the reporting date. The amount reported as a liability in the statement of financial position is based on the employee's salary grade as of the reporting dates.

Provident fund

Pursuant to Executive Order No. 641, the NDC has established a Provident Fund, a defined contribution plan consisting of contributions made by its officers and employees and the NDC. The Fund is administered by its Board of Trustees.

Income Tax

The income tax expense represents the sum of the current tax and deferred tax expenses.

Current Tax

The current tax expense is the amount of tax due which is computed based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the NDC expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and Deferred Tax for the Year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Borrowing Costs

Borrowing costs are interest and other costs that the NDC incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction, or production of qualifying assets are added to the cost of the assets until such time as the assets are substantially ready for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Provisions and Contingencies

Provisions are recognized when the NDC has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the NDC expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Foreign Currency Transactions

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date. At each reporting date:

a. Foreign currency monetary items are translated using the closing rate;

b. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and

c. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements are recognized in surplus or deficit in the period in which they arise.

Changes in Accounting Policies and Estimates

The effects of changes in accounting policies are recognized retrospectively. The effects of changes in accounting policy were applied prospectively if retrospective application is impracticable.

The effects of changes in accounting estimates are recognized prospectively by including them in profit or loss.

The material prior period errors are corrected retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or

- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities, and equity for the earliest prior period presented.

The increase in the capitalization threshold from P15,000 to P50,000 for Property and Equipment shall be considered a change in accounting policy and shall be applied retrospectively, in accordance with COA Circular No. 2022-004 dated May 31, 2022.

Events after the Reporting Date

Subsequent events that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after the period ends (non-adjusting events) are disclosed in the notes to the financial statements.

6. JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with Philippine Financial Reporting Standards requires the NDC to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur, which will cause the assumptions used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

In calendar year (CY) 2017, Management made a significant judgment regarding the financial position of Philippine Pharma Procurement Inc. (PPPI), which is 40 per cent owned by NDC. PPPI incurred continuous operating losses and has experienced negative cash flows from its operations. Management assessed these financial indicators to determine whether PPPI will be able to continue its rental payment obligations under existing lease agreements. Management determined that PPPI is presently unable to settle its lease liabilities. This judgment has a significant impact on the presentation and disclosure of rental receivables.

Estimated allowance for impairment of receivables

The NDC maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on factors that affect the collectability of the accounts. These factors include the age of the receivables, the length of the NDC's relationship with the customer, the customer's payment behavior, and known market factors. The amount and timing of recorded expenses for any period would differ if the NDC made different judgments or utilized different estimates.

At the end of 2024 and 2023, the NDC recognized the allowance for impairment of receivables in the amounts of P1.260 million and P2.532 million, respectively.

Estimating useful lives of property and equipment

The NDC estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets and residual values are reviewed and adjusted, if appropriate, only if there is a significant change in the asset or how it is used.

The following estimated useful lives are used in depreciating the property and equipment:

Type of Asset	**Estimated useful life in years**
Land improvements	40
Building and building improvements	2 to 20
Furniture and equipment	3 to 10

7. CASH AND CASH EQUIVALENTS

This account consists of:

	2024	2023
Cash with collecting/disbursing officer	**46,806**	104,273
Cash in banks	**11,180,555**	53,108,838
Cash equivalents	**971,306,137**	162,368,006
	982,533,498	215,581,117

Cash in banks earns interest at the prevailing bank deposit rates. Interest earned on Cash in banks amounted to P10,457 and P14,782 in CYs 2024 and 2023, respectively.

Cash equivalents pertain to investments in time deposits in the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) with interest rates ranging from 5.25 to 5.98 per cent and with maturity dates of three months or less.

8. OTHER INVESTMENTS

This account consists of money market placements in LBP and DBP in the total amount of P421.382 million and P1.018 billion in CYs 2024 and 2023, respectively. Interest earned on these investments amounted to P59.286 million and P74.306 million in CYs 2024 and 2023, respectively.

9. RECEIVABLES

This account consists of:

	2024	2023 (As restated)
Current		
Due from National Government (NG)	**424,471,202**	0
Interest receivables	**60,650,660**	84,264,549
Rental receivables	**57,897,823**	70,137,839
Due from officers and employees	**246,287**	880,045
Other receivables	**351,925,100**	347,168,885
	895,191,072	502,451,318
Allowance for impairment losses	**(259,091,609)**	(260,115,504)
	636,099,463	242,335,814

	2024	2023 (As restated)
Non-Current		
Loans receivables	**1,147,288,322**	1,101,588,322
Interest receivables	**6,938,606**	6,938,606
Due from subsidiaries/associates/affiliates	**1,143,744,206**	1,143,744,206
Due from officers and employees	**7,828,139**	7,481,790
Due from NG	**3,252,878**	3,252,878
	2,309,052,151	2,263,005,802
Allowance for impairment losses	**(2,197,394,743)**	(2,197,394,743)
	111,657,408	65,611,059

Significant disclosures on Current Receivable accounts are discussed hereunder:

Due from NG pertains to receivables from the Toll Regulatory Board from the sale of a parcel of land located at Pandacan City, Manila, with a total area of 13,297.97 square meters.

Interest receivables account pertains to interests from various investments and income-generating activities that were already earned as of the reporting date but not yet actually received.

The rental receivables account consists of collectibles from leases of real properties covered by lease agreements between the Corporation and lessees. The rental receivable from Philippine Pharma Procurement Inc. (PPPI), amounting to P9.204 million, represents the outstanding balance for the leased offices located on the ground, 2nd, and 12th Floors of the NDC building. PPPI has been incurring significant losses and has not been able to pay its monthly rentals and assessment fees to NDC. Consequently, in 2017, NDC ceased accruing rental income due to PPPI's inability to pay, arising from persistent negative cash flows and net losses.

Of the total rental receivables for CYs 2023 and 2024, P31.024 million have been identified as past due and have been provided with a 100 per cent allowance for impairment. No dormant rental receivables have been written off during the year; however, Management is continuously gathering the necessary documentation to support the request for the write-off of these accounts.

Due from officers and employees pertains to loans granted by the NDC to its officers and employees.

Other receivables account includes management fees, guarantee fees, commitment fees, NDC's 50 per cent share from Rizal Hydro Project, trade receivables, and other receivables. The account also includes a loan receivable amounting to P13.500 million from GY Real Estate, Inc., 60 per cent owned by NDC, which was due on June 15, 2024.

Meanwhile, significant disclosures on Non-Current Receivable accounts are presented on the next page:

Loans receivables account includes a restructured loan to the Philippines Mining Development Corporation (PMDC) with terms of up to 10 years starting July 30, 2013. PMDC requested a re-computation of its outstanding restructured loan and filed an arbitration case in November 2019. The Office of the Government Corporate Counsel (OGCC) noted the comment filed by NDC in September 2020. On October 22, 2021, the OGCC conducted a Case Management Conference. During the said conference, OGCC required the counsels of the parties to secure authority from their respective Board of Directors to represent the parties in the arbitration and to negotiate for the possible settlement of the case. On November 5, 2021, NDC received the settlement proposal of PMDC. On November 8, 2021, NDC submitted the Secretary's Certificate showing the authority granted to its counsels to represent NDC in the arbitration. On November 22, 2021, NDC submitted its proposed settlement to PMDC. The OGCC scheduled the Preliminary Conference in April 2022. On July 6, 2022, NDC filed a memorandum relative to the complaint for arbitration filed by PMDC against NDC, alleging that the P25 million advances made by NDC were for additional equity and not a loan. As of December 31, 2023, the committee of the Arbitration Panel has not yet issued a resolution in regard to the case.

Further, the loans receivable from PPPI amounting to P291.795 million represents the outstanding principal and accrued interest, exclusive of penalties from the loan that was restructured on June 30, 2013, between NDC and PPPI. The loan is payable every quarter for a period of eight years and bears an interest rate of seven per cent per annum. Since CY 2014, PPPI has been unable to make any installment payments or pay the accrued interest on its restructured loan. In CY 2015, considering PPPI's unfavorable financial condition and in accordance with the Manual of Regulations for Non-Bank Financial Institutions, NDC suspended the recognition of interest income from PPPI loans in the books of accounts of NDC. In CY 2017, a 100 per cent allowance for impairment was provided for the outstanding principal and interest balance of PPPI.

Furthermore, the loan receivables account includes a P40 million payment to Davao Thermo Biotech Corporation under the Investment Agreement, with the option for NDC to convert the same into equity through the issuance of Subordinated Convertible Zero-Coupon Debt Notes by the former. NDC also released P5.700 million, with Convertible Notes as the investment instrument, to Humble Sustainability Inc. as additional capital to expand the latter's business.

Due from subsidiaries/associates/affiliates consists of advances made to the NDC's various subsidiaries and affiliates. This also pertains to the various advances to the Philippine National Construction Corporation (PNCC), totaling P214 million between CYs 1990 to 1999 for foreign and peso accounts for which it issued promissory notes and interest and penalties thereon of P989 million as of December 31, 2009. The collection of the various advances made by NDC was the subject of an arbitration case before the OGCC Arbitral Tribunal:

- The arbitration case filed by NDC was consolidated by the Department of Justice (DOJ) with the arbitration case filed by the Privatization and Management Office against PNCC.

- The DOJ, in its Consolidated Decision dated February 18, 2014, granted NDC's Petition against PNCC; the dispositive portion was as follows:

"However, the Petition filed by NDC against PNCC is GRANTED. As prayed for, respondent PNCC is ordered: (1) to pay petitioner NDC the principal amount of the Promissory Notes, plus accrued interests and penalties as provided for in the said Notes; and (2) to reimburse the petitioner the amount of mortgage loan, including interest thereon."

- On March 13, 2014, PNCC filed a Motion for Reconsideration on the Consolidated Decision of the DOJ.

- On January 22, 2015, the DOJ denied PNCC's Motion for Reconsideration.

- On June 26, 2015, the PNCC filed a Notice of Appeal with the Office of the President (OP) of the Republic of the Philippines.

- On May 19, 2022, the OP dismissed the appeal filed by PNCC. A Motion for Reconsideration (MR) and Supplemental MR were filed by PNCC on July 21, 2022, and February 16, 2023, respectively.

- NDC is still awaiting the resolution of the OP on the appeal.

Due from NG represents the amount due from the Republic of the Philippines, representing expenses accompanying the NDC's transferred accounts to the NG. These accounts, consisting of loans, equity investments, advances, acquired assets, and other assets and liabilities, were identified and approved for transfer to the NG pursuant to Administrative Order No. 64 dated March 31, 1987.

Non-current receivables include accounts that were classified as dormant which have no financial activity for several years. Dormant accounts include loans, interest, and advances to subsidiaries that are either non-operational, dissolved, or in inactive status. The receivables from former officers and employees consist of housing and car loan accounts that have remained unpaid for over 10 years. These long-outstanding accounts have been referred to the legal department for appropriate action.

NDC continues to monitor such accounts and is in the process of completing all necessary documentation and procedures in accordance with the COA Circular for the proper write-off and disposition of these accounts. Impairment has been recognized on these balances based on the aging or years of inactivity, and Management's assessment that the full amount is no longer recoverable.

A reconciliation of the allowance for impairment losses at the beginning and end of CYs 2024 and 2023 are shown below:

	2024	2023
Beginning balance	**2,457,510,247**	2,454,977,751
Impairment loss during the year		
Rental Receivables	**(1,947,848)**	2,195,770
Others	**923,953**	336,726
	2,456,486,352	2,457,510,247

10. INVENTORIES

This account consists of the following:

	2024	2023
Inventory held for consumption:		
Carrying amount, January 1	**1,671,740**	1,627,648
Additions/acquisitions during the year	**1,106,093**	1,386,133
Expensed during the year	**(1,266,994)**	(1,342,041)
Carrying amount, December 31	**1,510,839**	1,671,740

Inventory held for consumption pertains to office supplies, accountable forms, and fuel, oil, and lubricants that were deployed for utilization or consumption in the ordinary course of operation.

11. OTHER CURRENT ASSETS

This account consists of:

	2024	2023 (As restated)
Restricted fund (held-in-trust)	**737,547,316**	655,122,152
Prepayments	**32,735,784**	32,494,031
Advances	**482,046**	238,407
	770,765,146	687,854,590

Restricted fund (held-in-trust) refers to the Mintex escrow fund invested in treasury bills with maturity dates of three months or less than one year. The distribution of the fund is governed by a deed of undertaking among the Human Settlements Development Corporation, the Southern Philippines Development Authority, and NDC. The purpose of the fund includes the entire settlement and liquidation of liabilities, which the shareholders of the old Mintex assumed, and the eventual distribution of the remaining trust assets. On February 9, 2023, the Mintex escrow funds were distributed following the new Memorandum of Agreement (MOA) based on their proportionate shareholdings.

This account also includes the fund for the hydropower project with the Philippine National Oil Company Renewables Corporation (PNOC RC), amounting to P45 million. On July 1, 2014, PNOC RC and NDC entered into a MOA for the development, commercialization, operation, and maintenance of the Pampanga River Irrigation System Main Canal Hydroelectric Power Project (Rizal Hydropower Project) for energy commercialization. On September 4, 2014, the Department of Energy confirmed the declaration of commerciality and approved the conversion of the Rizal Hydropower Service Contract from pre-development to development/commercial stage. This commenced the development and utilization of the Rizal Hydropower plant facility, which has a capacity of one megawatt. The plant started commercial operation on

July 1, 2016. Cash and cash equivalents from Rizal Hydro Power amounted to P5.304 million as of December 31, 2024. NDC recognized a 50 per cent share amounting to P2.652 million, which are funds reserved for the operation of the project.

Further, it includes the inter-agency fund transfer from the Department of Trade and Industry to NDC amounting to P95 million for the Philippine Innovation Hub – Marikina Enterprise Scale Up Hub or MESH Project, for the establishment of an innovation center to support the digital transformation of Micro, Small, and Medium Enterprises.

Furthermore, it includes cash earmarked for the Startup Venture Fund, amounting to P499.973 million, the Waste to Fuel project, amounting to P150 million and P5.900 million from the NDC provident fund.

Interest earned on these investments amounted to P22.095 million and P26.734 million in CYs 2024 and 2023, respectively.

Prepayments account includes amounts advanced for property insurance, contractors for various projects, input tax, and creditable withholding tax.

Advances account pertains to unliquidated cash advances granted to officers and employees for official travel, various special events, and operating expense payments.

12. FINANCIAL ASSETS

This account consists mainly of investments in bonds and other securities, as summarized below:

	2024	2023
Financial assets at amortized cost	**1,172,126,110**	1,217,164,655
Financial assets at fair value through other comprehensive income	**152,893,975**	137,493,895
	1,325,020,085	1,354,658,550

Financial assets at amortized cost

This account consists of long-term investments in retail treasury bonds purchased by NDC from the Land Bank of the Philippines with an interest rate ranging from 1.38 per cent to 4.00 per cent.

Interest earned on these investments amounted to P65.495 million and P34.168 million in CYs 2024 and 2023, respectively.

Financial assets at fair value through other comprehensive income

This account consists of investments in the following:

	2024	2023
Manila Golf and Country Club	**120,000,000**	115,000,000
Philippine Long Distance Telephone Company	**15,993,895**	16,469,085
Makati Sports Club	**1,200,000**	1,100,000
Philippine Columbian Association	**300,000**	120,000
	137,493,895	132,689,085
Market adjustment	**15,400,080**	4,804,810
	152,893,975	137,493,895

13. INVESTMENTS IN ASSOCIATES/AFFILIATES

This account consists of the following investments in associates of which the NDC has significant influence, and that is neither a subsidiary nor an interest in a joint venture.

		% of Ownership	**2024**	2023 (as restated)
Cost				
Refractories Corporation of the Phils.	RCP	33.00	**193,620,979**	193,620,979
San Carlos Bio-Energy, Inc.	SCBI	3.86	**172,900,000**	172,900,000
Manila Exposition Complex, Inc.	MECI	36.36	**120,000,000**	120,000,000
Philippine Dockyard Corporation	PDC	35.00	**101,650,000**	101,650,000
Triad Asia, Ltd.	TAL	50.00	**65,435,000**	65,435,000
Alabang-Sto. Tomas Development, Inc.	ASDI	49.00	**58,432,010**	58,432,010
Philippine Mining Development Corp.	PMDC	20.00	**25,000,000**	25,000,000
Phividec Industrial Estate	PIE	23.95	**17,000,000**	17,000,000
Philippine Pharma Procurement, Inc.	PPPI	40.00	**15,000,000**	15,000,000
Metro Hospital Waste Conversion	MHWC	40.00	**12,000,000**	12,000,000
First International Document Masters, Inc.	FIDMI	40.00	**4,000,000**	4,000,000
UP-NDC Basilan Plantations, Inc.	UNBPI	40.00	**2,400,000**	2,400,000
Interbank Venture Capital Corporation	IVCC	20.00	**1,000,000**	1,000,000
Philbancor Venture Capital Corporation	PBVCC	20.00	**1,000,000**	1,000,000
Veterans Venture Capital Corporation	VVCC	20.00	**1,000,000**	1,000,000
LIDE Management Corporation	LMC	20.00	**20,000**	20,000
San Jose Oil Company	SJOC	20.00	**1,716**	1,716
			790,459,705	790,459,705
Accumulated equity in net earnings (losses)				
Balance at the beginning of the year			**(235,079,071)**	(263,584,922)
Share in net profit for the year.			**34,023,754**	29,060,440
Dividends received			**(3,676,744)**	(554,589)
Balance at the end of the year			**(204,732,061)**	(235,079,071)
Share in the revaluation increment of an associate			**28,883,100**	28,883,100
Share in prior period adjustment of associates			**(152,007,705)**	(152,007,705)
			462,603,039	432,256,029
Allowance for impairment losses			**(204,486,716)**	(204,486,716)
			258,116,323	227,769,313

Refractories Corporation of the Philippines (RCP) is a minority-owned affiliate of NDC at 33 per cent (4.328 million shares equivalent to P108.223 million in equity). On September 2, 2009, RCP filed for corporate rehabilitation before the Regional Trial Court (RTC) Branch 159 in Pasig City. The Court approved the rehabilitation on May 7, 2010. As part of the rehabilitation, RCP's total debt as of March 31, 2010, was converted into common shares. As a result, NDC's shareholdings in RCP were diluted from 33 per cent to 11 per cent. The RCP is undergoing court litigation on its corporate rehabilitation plan. A court hearing was held on February 26, 2016, at the Pasig RTC. The Court has not yet issued an order on the issues of the case.

14. INVESTMENTS IN SUBSIDIARIES

This account consists of the following investments in subsidiaries over which the NDC exercises control over the investee's financial and operating policy decisions.

		% of Ownership	**2024**	2023
Common Shares				
Operational				
Philippine International Trading Corp.	PITC	99.50	**199,000,000**	199,000,000
Batangas Land Company, Inc.	BLCI	60.00	**55,659,300**	55,659,300
GY Real Estate, Inc.	GYREI	60.00	**13,084,200**	13,084,200
First Cavite Industrial Estate, Inc.	FCIEI	100.00	**8,845,038**	8,845,038
Kamayan Realty Corporation	KRC	60.00	**7,447,000**	7,447,000
Pinagkaisa Realty Corporation	PRC	60.00	**2,508,629**	2,508,629
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	**400,000,000**	400,000,000
Manila Gas Corporation	MGC	91.70	**74,616,000**	74,616,000
NDC-Philippine Infrastructure Corp.	NPIC	100.00	**80,000,000**	80,000,000
For dissolution				
Luzon Stevedoring Corporation	LSC	100.00	**330,987,000**	330,987,000
Preferred Shares				
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	**500,000,000**	500,000,000
			1,672,147,167	1,672,147,167
Allowance for impairment losses			**(1,269,832,038)**	(1,269,832,038)
			402,315,129	402,315,129

The Luzon Stevedoring Corporation had ceased operations in 1999. The records and books of accounts were not turned over to NDC.

The First Centennial Clark Corporation (FCCC) had ceased operations way back in CY 2007, when Clark Development Corporation (CDC), a subsidiary of the Bases Conversion and Development Authority, terminated with finality the Lease Agreement dated October 30, 1997, between CDC and FCCC for the failure of FCCC to pay the rental fees. Prior to such termination, FCCC and CDC entered into a Management

Agreement whereby CDC operated the FCCC leasehold area. However, the CDC simultaneously canceled the said Memorandum of Agreement and the Lease Agreement. Both NDC and FCCC requested that the CDC reconsider such termination, but to no avail. As a consequence of the CDC's cancellation of leasehold rights, the CDC took over and appropriated the structures and buildings of FCCC erected on the leased area.

The dividend income earned by the NDC from its investment in subsidiaries amounted to P2.393 million and P1.915 million in CYs 2024 and 2023, respectively.

15. OTHER INVESTMENTS

This account consists of investment in equity instruments as shown below:

		% of Ownership	**2024**	2023
Common Shares				
Operational				
Asean Bintulu Fertilizer Sdn. Bhd.	ABFSB	9.50	**158,895,989**	158,895,989
Manila HealthTek, Inc.	MHTI	9.33	**70,000,000**	0
Science Park of the Philippines, Inc.	SPPI	4.59	**24,951,957**	24,951,957
Non-operational				
Paper Industries Corp. of the Phils.	PICOP	0.28	**15,000,000**	15,000,000
Menzi Development Corporation	MDC	5.20	**10,000,000**	10,000,000
For dissolution				
P.T Asean Aceh Fertilizer	PTAAF	13.00	**106,605,963**	106,605,963
Resort Hotels	RH	6.30	**6,474,300**	6,474,300
LSCO- PDCP	LPDCP	0.00	**188,550**	188,550
LSCO – Republic Planters Bank	LRPB	0.00	**96,000**	96,000
LSCO- PLDT	LPLDT	0.00	**15,250**	15,250
Pre-operating				
Asean Potash Mining Corporation	APMC	1.00	**12,598,944**	12,598,944
Under receivership				
National Steel Corporation	NSC	0.53	**622,305,756**	622,305,756
Preferred Shares				
Under receivership				
National Steel Corporation	NSC	0.53	**1,196,967,152**	1,196,967,152

	% of Ownership	2024	2023
Other Investments			
Solx Technologies, Inc.		**11,000,000**	0
Investments in the project (NDC Rattan)		**62,406,520**	62,406,520
Others		**99,455,145**	99,455,145
		2,396,961,526	2,315,961,526
Allowance for impairment losses		**(2,119,514,636)**	(2,119,514,636)
		277,446,890	196,446,890

Update on National Steel Corporation (NSC)

The NSC Liquidation Plan involves, among others, the disposition of the NSC plant assets as an integral facility in order to allow a prospective buyer to resume the operation thereof within a short period of time from acquisition. Under the Plan, the NSC plant assets are to be used exclusively in settling the claims of all the NSC Secured Creditors, who are to waive their right to claim against the other assets of NSC for any deficiency in their secured credit and their unsecured credit.

Two years after NSC's liquidation, the majority of the secured creditors and the stockholders of NSC came into a general understanding and agreement as to the disposition of the NSC plant assets, the payment of the liabilities owing to the NSC secured creditors, and the business operation of the Special Purpose Vehicle (SPV), which shall eventually purchase the NSC plant assets.

On January 29, 2004, the NSC Liquidator, the NSC Secured Creditors, the NSC Shareholders, and Global Ispat Holdings Ltd. (GIHL) entered into an Initial Agreement that set out the basic terms and conditions of the sale and purchase of the NSC plant assets. The proposed sale to and purchase of the NSC plant assets by GIHL was approved by the Securities and Exchange Commission (SEC) in its Order issued on May 6, 2004.

On September 10, 2004, the Parties executed an Asset Purchase Agreement (APA) to document the detailed terms and conditions of the sale and purchase of the right, titles, and interests in and to, including the ownership of the NSC plant assets. However, at the time of signing, NDC was not able to obtain Board approval for its authorized signatory. Thus, its share in the down payment was held in escrow with the Philippine National Bank (PNB). To remedy the situation, an accession agreement was executed among NDC, GIHL, and Global Steel Corporation (Global Steel). As soon as the Accession Agreement is signed by all Parties, the Corporation shall withdraw the escrow fund held by PNB and recognize the sale accordingly.

NDC, in its capacity as a Government-Owned and Controlled Corporation secured creditor of NSC, sought the Department of Finance's approval to consider the transaction as a "true sale" and, thus, be eligible for all the incentives available under the SPV Law of 2002. The Bangko Sentral ng Pilipinas, the appropriate regulatory authority for creditor banks, considered the transaction structure on the sale of NSC plant assets to GIHL a "true sale" under the SPV Law as confirmed by the Monetary Board under Resolution No. 514 dated April 15, 2004.

NDC's primary consideration in consenting to the sale is twofold. First, the national interest was taken into account, given the government's commitment to reopen NSC as soon as possible and the mandate given to the Department of Trade and Industry to facilitate the same. Second, NDC's corporate interest was also considered, with the opportunity to partially recover its investments in NSC, which were unlikely in the first place given NSC's liquidation status.

On October 15, 2004, the Parties executed the Omnibus Agreement, which set the terms and conditions governing the deferred payment of the balance of the agreed price in the remaining sum of P12.250 billion, spread over eight years. However, Global Steel has not paid the real property taxes on the Iligan Plant since the NSC plant assets were turned over to it in CY 2005. Global Steel has interposed due to the following reasons: the alleged over-assessment by the City, the pendency of its application for tax incentive under a city ordinance, and the alleged misapplication by the City of its previous real property tax payments to other NSC properties. By 2006, therefore, Global Steel began defaulting on its installment payments and/or obligation to provide the standby letters of credit as required under the APA and the Omnibus Agreement.

Global Steel filed an action with the RTC of Makati City on October 2, 2008, praying for an injunctive relief specifically to prohibit the NSC Secured Creditors from declaring an event of default in case it fails to pay the maturing installments. The trial court denied its prayer for injunctive relief.

Global Steel then filed for arbitration with the Singapore International Arbitration Center on October 13, 2008. Using the arbitration proceedings as the legal excuse, Global Steel sought provisional relief from the Singapore High Court where it prayed that the NSC Secured Creditors be restrained from declaring Global Steel to be in default under the Agreement and from declaring due and payable the balance of the purchase price and all other amounts payable under the Agreement. Global Steel claimed that the Liquidator and the Secured Creditors failed to deliver title to the NSC plant assets free and clear from all liens since the real property tax lien of the City of Iligan had not been discharged. Thus, Global Steel allegedly could not obtain title to the NSC plant assets and seek additional financing.

At this point, NDC did not become a signatory to the Implementing Agreements (Omnibus Agreement, the Asset Purchase Agreement, and Purchase Price Sharing Agreements) for the sale of NSC assets. While NDC has signed the Accession Agreement, a document that makes a creditor accede to and adhere to the Implementing Agreements, the same was not perfected due to Global Steel's failure to sign, given their filing for arbitration.

On May 9, 2012, the Arbitral Tribunal issued the Partial Award (the "Award") in favor of Global Steel and against NSC Liquidator Danilo L. Concepcion and the Secured Creditors. The Award specifically held Danilo L. Concepcion and the Secured Creditors solidarily liable to Global Steel. In sum, the Award ordered Danilo L. Concepcion and the Secured Creditors to pay Global Steel the amount of USD 80 million by way of damages and to transfer all NSC plant assets free from all liens to Global Steel and for the Secured Creditors to pay Global Steel the amount of USD 1.043 billion with respect to the Lost Land Claim. The majority of the Secured Creditors of Global Steel then filed an application to set aside the Award with the Singapore High Court on July 9, 2012.

The High Court of Singapore issued a Decision dated July 31, 2014 ("High Court Decision") that set aside the arbitral Award in its entirety. In addition, the High Court granted the Secured Creditors' claims for the payment of their legal costs for the court proceedings, which shall be subject to further submissions.

Global Steel appealed the High Court's Decision to the Singapore Court of Appeals on all points. The Singapore Court of Appeals allowed and dismissed Global Steel's appeals in part. The practical effect of the decision is that certain parts of the Award remain to be set aside. However, the Court of Appeals reinstated the findings of the Tribunal in the Award that the Liquidator and the Secured Creditors breached the APA in failing to transfer a clean title over the NSC plant assets to Global Steel.

On August 23 and 30, 2016, the City Treasurer of Iligan City caused the publication of a Notice of Real Property Tax Delinquency in the Gold Star Daily, covering all real properties declared in the name of NSC in Iligan City pertaining to the period beginning on the 4th quarter of 1999 ending on the 2nd quarter of 2016. The Liquidator wrote the City Treasurer a letter to remind them that any attempt to levy on the subject properties will be in contravention of the Stay Order issued by the SEC on November 30, 2006. SEC affirmed the continuing validity of the said Stay Order in its letter to the Office of the City Treasurer of Iligan City, dated January 5, 2016. Notwithstanding the writ of execution issued by Branch 57 of the RTC of Makati, the City of Iligan, through the City Treasurer, proceeded with the tax sale on October 19, 2016. No bid was submitted. Pursuant to the Local Government Code, there being no bidder, the City Treasurer shall purchase the property for the local government.

While the petition for Ex-Parte motion for annotation on the titles of NSC assets regarding the omnibus order nullifying the auction sale was granted on October 19, 2016, the secured creditors are implementing the other legal remedies to secure the NSC properties, which were taken over by the City of Iligan.

On August 6, 2020, NDC received a forwarded letter from BDO Trust stating Platinum Paramount Pacific Group of Companies Inc.'s intent to acquire the NSC. On November 10, 2020, BDO Trust informed NDC and other stakeholders that a building is about to be constructed at the lower portion of the former NSC Administrative Building 1 and NSC Gym at the Hilltop, which will serve as housing for the New People's Army surrenderees.

On July 15, 2021, GJL Real Estate GMBH, a foreign company in Germany, and its Philippine partner, Platinum Paramount Pacific Group of Companies, Inc., submitted their letter of intent to acquire NSC, including all its assets.

The receiver of the entire property has been in constant communication with the NDC to discuss various strategies to address the long-standing issues surrounding the NSC and its creditors. One such idea is for the NDC to consider exercising its expropriation powers on the property sold to Global Steel Corporation. In order to make this possible, the law dictates that a sum of money should be deposited with the court in the amount equivalent to the assessed value of the property being considered.

The dividend income earned by the NDC from its stock investments amounted P5.695 million to P11.390 million for CYs 2024 and 2023, respectively.

16. INVESTMENT PROPERTY

The NDC's investment properties consist of 53 real properties with an aggregate area of 12,845,734.29 square meters (sq. m.), three buildings, two residential houses, and one condominium unit located in various cities and municipalities across the country. These properties include land and buildings that are held to earn rentals under operating leases, capital appreciation, and project development. Reconciliation between the carrying amounts of investment property at the beginning and end of the period is shown below:

	Land	Building	Total
Restated ending balance, December 31, 2022	**26,414,961,702**	**327,410,502**	**26,742,372,204**
Add:			
Net gain from changes in fair value	4,423,232,508	6,783,030	4,430,015,538
Cost recognized in the carrying value	0	8,951,628	8,951,628
Restated ending balance, December 31, 2023	**30,838,194,210**	**343,145,160**	**31,181,339,370**
Add:			
Net gain from changes in fair value	1,490,998,477	50,462,620	1,541,461,097
Cost recognized in the carrying value	0	6,298,020	6,298,020
Less:			
Sale of portion of Pandacan Property	718,090,380	0	718,090,380
Ending balance, December 31, 2024	**31,611,102,307**	**399,905,800**	**32,011,008,107**

The NDC uses the Fair Value Model for its investment properties. Cal-Fil Appraisal and Management, Inc., Value Metrics, Inc., and Toppers Performer Appraisal, Inc., appraised the fair market value of investment properties as of December 31, 2024. Details are presented below:

Investment Properties with lease

Location of the Property	**2024**	2023 (As restated)
Land		
Philphos Assets-LIDE	**7,671,155,268**	6,895,600,800
Isabel, Leyte	**1,832,547,700**	2,527,652,000
M Fortich/Libona, Bukidnon	**1,658,436,460**	1,298,041,000
Pandacan, Manila	**1,435,764,541**	2,707,449,300
Lapu-Lapu City, Cebu	**1,407,728,000**	1,256,900,000
Tordesillas St., Salcedo Village, Makati City	**1,096,188,000**	601,200,000
Sen. Gil Puyat, Makati City	**1,083,180,000**	1,072,864,000
Barangka, Mandaluyong City	**826,599,000**	607,916,000
P.Tamo & Dela Rosa Sts., Makati City	**481,911,000**	438,880,000
Kamagong & Sampaloc Sts., Makati City	**290,512,800**	288,880,000
Bugo Dist.,Cagayan De Oro City	**244,293,000**	205,279,000
Bagong Ilog, Pasig City	**223,633,600**	209,050,000
Lacson & Rizal Sts. Bacolod City	**101,312,000**	106,535,000
Pingag Property	**65,220,075**	341,020,000

Location of the Property	2024	2023 (As restated)
Aguinaldo & Luna St., Iligan City	**38,863,000**	31,840,000
San Roque, Tarlac	**33,610,500**	32,920,000
	18,490,954,944	18,622,027,100
Buildings and Condominium		
Industry & Investment Building	**205,581,000**	197,357,760
NDC Building	**149,266,000**	127,405,000
Manila Luxury Condominium	**17,490,000**	15,950,000
Leyte Port Complex	**26,035,000**	925,400
	398,372,000	341,638,160
	18,889,326,944	18,963,665,260

Investment Properties without lease

Location of the Property	2024	2023 (As restated)
Land		
Macapagal Blvd., Pasay City	**5,899,455,000**	6,230,586,000
Sucat, Muntinlupa	**2,778,272,400**	2,161,055,000
Dasmarinas, Cavite	**1,255,184,000**	1,201,230,000
Toril, Davao City	**1,272,935,000**	798,700,000
San Juan St. Bacolod City	**492,248,000**	401,190,000
San Andres & E. Quirino Ave. Manila*	**297,599,128**	144,980,000
Sta. Mesa, Manila**	**210,492,320**	506,122,110
Diliman, Quezon City	**201,777,075**	202,500,000
San Dionisio, Paranaque	**99,392,000**	73,010,000
Bo. Langihan, Butuan City	**83,688,000**	13,800,000
Meycauayan, Bulacan	**71,665,000**	53,880,000
Hermosa, Bataan	**67,500,000**	65,000,000
Sta. Fe, Bantayan, Cebu	**60,916,000**	46,080,000
Bo. San Juan & Sto. Nino Pampanga	**60,430,000**	44,410,000
Sambag, Cebu	**37,620,000**	40,210,000
San Francisco Del Monte, Quezon City	**34,800,000**	44,980,000
Mariveles, Bataan***	**27,106,000**	22,880,000
Baliwasan, Zamboanga City	**25,874,000**	31,550,000
Los Baños, Laguna	**25,771,000**	29,380,000
Dao, Tagbilaran, Bohol	**23,449,000**	22,340,000
San Fernando, Pampanga	**20,682,000**	19,160,000
Poblacion, Parang, Cotabato	**13,974,800**	12,980,000
Puerto, Cagayan de Oro City	**13,073,000**	11,060,000
Sta. Rosa, Laguna	**8,904,000**	7,610,000
Suyong, Echague, Isabela	**8,652,000**	6,920,000
Bongabon, Nueva Ecija	**5,819,000**	3,765,000
Bonot, Legazpi City	**3,760,000**	3,760,000
Cagayan de Oro City	**3,077,000**	3,010,000

Location of the Property	2024	2023 (As restated)
Tanay, Rizal	**2,960,640**	2,260,000
Calatagan, Batangas	**2,828,000**	2,600,000
Bo. Bia-an, Mariveles, Bataan***	**2,400,000**	1,680,000
San Roque, Antipolo City	**2,106,000**	2,990,000
San Isidro, Antipolo City	**2,026,000**	1,395,000
San Jose, Antipolo City	**1,400,000**	1,100,000
Talakag, Bukidnon	**990,000**	900,000
Pueblocillo Village, Dasmarinas Cavite	**745,000**	714,000
Porac, Pampanga	**576,000**	380,000
	13,120,147,363	12,216,167,110
Residential houses		
San Roque, Antipolo City	**1,276,800**	1,260,000
Pueblocillo Village, Dasmarinas Cavite	**257,000**	247,000
	1,533,800	1,507,000
	13,121,681,163	12,217,674,110
	32,011,008,107	31,181,339,370

* Lease of property ended on December 31, 2023

** No lease contract was executed between NDC and the occupant. Property is subject of a pending case which hinders the contract negotiation between parties. Accordingly, the occupant regularly remits rental payments to NDC but records them under Trust Liabilities and Miscellaneous Long-term Liabilities.

*** No substantial increase in fair market values of Bo. Bia-an, Mariveles, Bataan and Mariveles, Bataan Properties. Changes in values were due to incorrect presentation in previous years of these properties. No effect on the total balance of the Investment Property account as the error only pertains to the presentation of the location of these properties.

Meanwhile, the lease income earned and the operating expenses, which consist of real property taxes, security services, and repairs and maintenance of the properties, incurred by the NDC arising from these investment properties, are presented below:

Location of the Property	2024	2023 (As restated)
Investment Properties with lease		
Lease income	**255,614,584**	221,420,924
Operating expenses	**25,338,726**	25,813,349
Investment Properties without lease		
Operating expenses	**36,027,538**	29,079,183

NDC owns several parcels of land in the Municipalities of Manolo Fortich and Libona, Province of Bukidnon, and Bugo, Cagayan de Oro City, with an area of 9,524,958 sq. m., evidenced by various Transfer Certificates of Title (TCTs) and Tax Declarations. Additionally, NDC has the right of use on a parcel of land with an area of 302,037 sq. m. These properties with a total aggregate area of 9,826,995 sq. m. were leased by NDC to Del Monte Philippines, Inc. (DMPI). The Lease Contract has a term of 25 years, effective on March 1, 2007, and set to expire on March 1, 2032.

NDC acquired these properties through irrevocable donations of American-owned private agricultural lands, which were transferred to the National Government under the Laurel-Langley Agreement and subsequently donated to NDC under various Presidential Decrees issued by former President Ferdinand E. Marcos in 1975.

The distribution of properties currently leased to DMPI is as follows.

Classification	Total Area (in sq. m.)	Distribution of Leased Properties (in sq. m.)		
		Libona, Bukidnon	Manolo Fortich, Bukidnon	Bugo, Cagayan de Oro City
Commercial/ Residential	3,475,260	463,345	2,691,787	320,128
Pasture Land	4,007,328	3,126,279	881,049	
Roads/ Open Spaces	1,682,586	1,149,190	533,396	
Schools/ Churches/ Cemeteries	661,821	227,116	434,705	
TOTAL	**9,826,995**	**4,965,930**	**4,540,937**	**320,128**

Of the total area of Bugo, Cagayan de Oro City, 115,657 sq. m. is covered by a Foreshore Lease Agreement (FLA) with the Department of Environment and Natural Resources (DENR) – Community Environment and Natural Resources Office (CENRO) No. X-5-B, Cagayan de Oro City. The FLA was executed by and between the DENR-CENRO and the NDC on December 12, 1994, to occupy, develop, utilize, and manage the subject foreshore land for the full term of 25 years, which expired on December 11, 2020. The FLA renewal with DENR-CENRO for twelve years or until December 2032, which is aligned with DMPI lease expiration, is still in process. Also, 13,719 sq. m and 4,372 sq. m. were covered by a Transfer Certificate of Title and a Tax Declaration, respectively. On the other hand, the nature of rights over 186,380 sq. m. has yet to be established.

Only 13,719 sq. m. of the total area of Bugo, Cagayan de Oro City, was appraised and recorded in the books of accounts of NDC. On the other hand, the fair value of 4,372 sq. m, evidenced by a Tax Declaration, and NDC's right of use on the 302,037 sq. m. were not yet recognized since no measurement was made in calendar years (CYs) 2024 and 2023.

NDC's property located at Tomas Claudio St., Pandacan, Manila, with an area of 50,137.95 sq. m. and covered by Transfer Certificate of Title (TCT) No. 121218, was affected by the Right-of-Way (ROW) requirement of the Metro Manila Skyway Stage 3 (MMSS3) Project. In a meeting with the representatives of the Toll Regulatory Board (TRB) and the Department of Public Works and Highways (DPWH) held on November 22, 2021, TRB/DPWH intends to acquire only the portion of the property with an area of 13,297.97 sq. m. that was directly affected by the ROW of the MMSS3 Project.

The viability for commercial purposes of the remaining 36,839.98 sq. m portion of the subject property was gravely affected because it was subdivided into three irregularly shaped fragments. Moreover, the accessibility of the property has been severely limited by the skyway above it. Thus, the NDC Board of Directors directed the Management to sell the entire property to the National Government (NG)/TRB.

On June 19, 2024, the NDC and TRB executed a Memorandum of Agreement (MOA) and the corresponding Deeds[1] of Absolute Sale (DOAS) for the 13,297.97 sq. m. affected areas of the ROW. On the same date, the NDC received the first payment representing 50 per cent of the consideration of the affected areas. Meanwhile, the remaining 50 per cent shall be paid upon the annotation of the DOAS on the TCT, which was recorded in TCT No. 121218 by the Registry of Deeds Manila on November 20, 2024. Hence, the final payment of the compensation price shall be paid accordingly by TRB.

Under the same MOA, NDC and TRB have a five-year period, within which the parties are to undertake negotiations for the acquisition of the 36,839.98 sq. m. remaining portion of the Pandacan property. Accordingly, TRB needs to undertake the necessary actions for the negotiation, as follows: a) Revision of the approved parcellary plans, sb) Approval of the inclusion of the cost of acquisition of the entire NDC property in the Project cost; and c) Secure the necessary approvals for the acquisition and payment of the just compensation for the subject remaining portion.

The negotiation for the remaining portion has yet to commence, pending NDC's receipt[2] of the full payment for the affected areas of the MMSS3 Project ROW.

In the interim, Management has taken prudent and proactive steps to derive economic value from the remaining portions of the property. Of the remaining portion of Pandacan Property, 13,839.40 sq. m was leased for the period commencing on October 23, 2023, until October 22, 2028.

The NDC's Cadastral Lot 5044, located in Sitio Pingag, Barangay Matlang, Isabel, Leyte, covers an area of 85,255 sq. m. The NDC took possession of the Cadastral Lot 5044 by virtue of Section 3 of the Letter of Instructions No. 962, Series of 1979, establishing the Leyte Industrial Development Estate in Isabel, Leyte. The NDC is the listed Survey Claimant of Cadastral Lot 5044, in the Department of Environment and Natural Resources (DENR) records, and a Tax Declaration in the name of NDC was correspondingly issued by the Local Government Unit of Isabel, Leyte, in this regard.

In 2009, Management initiated the relocation survey to facilitate the registration/titling of the property, which was submitted for approval to the DENR, Regional Office No. 8. However, the investigation of from DENR Regional Officer revealed that the entire Cadastral Lot 5044 is within timberland/forestland and cannot be declared as Alienable and Disposable (A&D) land and is not eligible for titling. The conversion thereof into A&D land would require Congressional approval. The Management shall conduct further studies in the pursuit of this track.

[1] Two DOAS' were executed for the sale of 11,109.49 sq. m and 2,188.48 sq. m.
[2] As at December 31, 2024

The NDC's Sta. Fe, Bantayan, Cebu property is a 5,297 sq. m. untitled parcel of land, covered by Tax Declaration in the name of NDC.

The property is covered by Proclamation No. 2151, Series of 1981, which declares Bantayan Island as part of the wilderness area. As such, the land has been withdrawn from entry, sale, settlement, or any other form of disposition or exploitation. The conversion of the land into A&D requires congressional action. In 2019, a House Bill was passed to reclassify the island; however, it still requires approval from the Senate.

Moreover, the following investment properties are yet to be titled in NDC's name due to the complexity of the titling process for each property:

No.	Property/Location	Land Use	Area (in sq. m.)
1	Langihan District, Butuan City	Residential/Agricultural	24,974
2	Meycauayan, Bulacan	Residential/Commercial	5,231
3	Brgy. Puerto, Cagayan de Oro City	Residential	3,352
4	San Dioniso, Parañaque City*	Residential	1,426
5	Calatagan, Batangas*	Residential/Agricultural	1,131
6	San Francisco del Monte, Quezon City*	Residential	623
7	Talakag, Bukidnon*	Residential	450

*International Corporate Bank (ICB) Assigned Assets

Among the properties, the San Dionisio, Parañaque Property has a pending case of unlawful detainer filed by the International Corporate Bank Inc. against Marita M. Alegre et. al. This case was ordered archived by the Metropolitan Trial Court of Parañaque Branch 78 on December 11, 1992. In CY 2015, when the NDC Legal Department went to the court to secure copies of the case records for possible revival of the case, they were informed that the records of the case were no longer available because they were destroyed/damaged due to water exposure.

Upon verification of the status of the property, the NDC Asset Management Group discovered that it remained registered under the name of Asia Pacific Finance Corporation (APCOR), as indicated in the certified true copy obtained from the Registry of Deeds. However, records from the Tax Mapping Division of the Assessor's Office of Parañaque revealed that the area where the APCOR property is located is registered under the name of Love Jean B. Tee, who possesses a consolidated title. Further, the records indicate that the property was transferred to Ms. Tee by the Alegres.

Nonetheless, Management is exerting utmost effort to expedite the titling of the subject properties. Management has commenced the registration of the pertinent instruments with the Registry of Deeds, evidencing NDC's ownership and rights over the assigned assets from the ICB.

Likewise, several investment properties are occupied by illegal occupants when acquired by NDC through a Deed of Assignment/Donation:

No.	Property	Land Use	Area (in sq. m)
1	Bo. San Pedro, Hermosa, Bataan*	Agricultural/ Residential	54,892
2	Bongabon, Nueva Ecija*	Agricultural/ Residential	8,952
3	Los Baños, Laguna	Residential	8,901
4	Campo Islam, Zamboanga City	Commercial/ Industrial	6,594
5	Puerto, Cagayan de Oro	Residential	3,352
6	San Felipe, San Fernando, Pampanga*	Residential	877
7	San Francisco Del Monte, Quezon City*	Residential/Commercial	623
8	Sambag District, Cebu City*	Residential/Commercial	613
9	Fernandino Subdivision, San Nicolas, San Fernando, Pampanga*	Residential	600
10	Aurea Subdivision, San Nicolas, San Fernando, Pampanga*	Residential	340

*ICB Assigned Assets

The Legal Department shall evaluate the matter and undertake the appropriate legal actions necessary to address the unauthorized occupancy, enforce NDC's property rights, and pursue any potential compensation claims, if warranted.

Among the investment properties without lease, 191,773 sq. m. of Dasmariñas, Cavite Property is being developed as an Industrial Estate. Also, Sucat, Muntinlupa Property is under a Joint Venture with a private entity. Meanwhile, some properties are currently idle/vacant and are marketed for lease. Management remains steadfast in its commitment to optimize the value and utilization of the properties. Thus, Management continues to promote and advertise the properties for lease and utilizes the online real estate platforms as a new avenue to attract prospective lessees. On the other hand, Management has identified properties for disposition, which, based on evaluation, shall contribute to the NDC's income maximization and overall strategic goals.

17. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Rizal Hydro-power Plant	Total
December 31, 2024					
Cost					
At January 1, 2024	609,958,883	146,709,041	681,295,456	34,049,808	1,472,013,188
Additions	0	1,910,321	15,221,501	148,264	17,280,086
Adjustments	0	(15,642)	(8,026,119)	(1,375,939)	(9,417,700)
Disposal	0	0	(506,480)	0	(506,480)
At December 31, 2024	609,958,883	148,603,720	687,984,358	32,822,133	1,479,369,094
Accumulated depreciation					
At January 1, 2024	609,421,548	5,698,944	658,524,768	10,080,263	1,283,725,523
Depreciation for the year	282,613	5,185	3,013,711	3,338,116	6,639,625
Disposal	0	0	(934,252)	148,264	(785,988)
Adjustments	0	0	(506,480)	0	(506,480)
At December 31, 2024	609,704,161	5,704,129	660,097,747	13,566,643	1,289,072,679
Net carrying amount, December 31, 2024	**254,722**	**142,899,591**	**27,886,611**	**19,255,490**	**190,296,414**

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Rizal Hydro-power Plant	Total
December 31, 2023					
Cost	609,958,883	146,709,041	681,295,456	34,049,808	1,472,013,188
Accumulated Depreciation/ Adjustment	609,421,548	5,698,944	658,524,768	10,080,262	1,283,725,522
Net carrying amount, December 31, 2023	**537,335**	**141,010,097**	**22,770,688**	**23,969,546**	**188,287,666**

Included in the Improvement and Equipment accounts are the properties at the Leyte Port Complex at Isabel, Leyte, which are being leased to PHILPHOS, and 50 per cent share of NDC to the Rizal Hydro Power Plant Facility located at Rizal, Nueva Ecija.

18. OTHER NON-CURRENT ASSETS

This account consists of:

	2024	2023
Other non-current assets		
Lands not used in operation	**9,794,105**	9,794,105
Prepayments	**2,374,634**	3,413,992
Deposits	**329,170**	325,990
Others	**982,971,125**	982,971,125
Allowance for impairment loss	**(968,478,762)**	(968,478,762)
	26,990,272	28,026,450
Deferred charges		
Coal Operating Contract	**42,000,000**	42,000,000
Allowance for impairment loss	**(42,000,000)**	(42,000,000)
Miscellaneous	**828,305**	828,305
	828,305	828,305
	27,818,577	28,854,755

Lands not used in operation pertains to the properties located at San Jose del Monte and San Idelfonso, Bulacan, and Camarines Sur, which were covered by the Comprehensive Agrarian Reform Program (CARP) of the Department of Agrarian Reform (DAR). The Land Bank of the Philippines (LBP) has not yet paid for the value of these lands, and NDC is still in the process of completing the necessary documents as required by the DAR. It also includes property located in Guadalupe, Cebu City which is currently designated as “road right-of-way” for residents of the community in the area.

Deposits account consists mainly of long-term refundable deposits made to various companies for the supply of communication, water, electricity, and other similar deposits.

Prepayments account pertains to advances made to contractors for various goods and services procured.

Restricted fund (held-in-trust) refers to the Mintex escrow fund with a maturity of more than one year. On February 9, 2023, the Mintex escrow funds were distributed following the new MOA based on their proportionate shareholdings (see Note 11).

Others account principally includes assets acquired from the former ICB amounting to P962.110 million through a Deed of Assignment dated September 16, 1983. ICB sold these assets to NDC as a means of rehabilitating the former pursuant to a MOA executed by and among NDC, the then Central Bank of the Philippines, the Development Bank of the Philippines, and ICB.

Deferred charges - Coal Operating Contract pertains to the project for the exploration, development, exploitation, production, and utilization of the country's coal resources pursuant to the Coal Development Program under Presidential Decree No. 972 - Coal Development Act of 1976. NDC acquired the rights, titles, and interests of the coal operating project from Vulcan Industrial and Mining Corporation. The project, however, did not commence commercial operations and the account had been outstanding since CY 1980. The amount of the project, which was provided with full allowance for non-recovery, is part of the accounts requested for write-off from the Commission on Audit (COA). Under COA Decision No. 2015-297, dated November 24, 2015, COA denied NDC's request to write off the account in the amount of P42 million.

19. FINANCIAL LIABILITIES

This account consists of:

	2024	2023 (As restated)
Interest payable	**456,620,150**	456,620,150
Loans payable	**140,000,000**	140,000,000
Accounts payable	**30,798,367**	44,234,696
	627,418,517	640,854,846

Interest payable pertains to the interest on advances from the Bureau of the Treasury.

Loans payable consist of guarantee fees amounting to P140 million for the 2nd tranche bond flotation of NDC Agri-Agra bonds.

Accounts payable consist of various expenditures already incurred but remain unpaid as of the statement of financial position date.

20. INTER-AGENCY PAYABLES

This account consists of:

	2024	2023 (as restated)
Income tax payable	**7,342,742**	9,972,792
Due to Treasurer of the Philippines	**6,976,073**	7,393,324
Due to Bureau of Internal Revenue (BIR)	**5,364,563**	5,435,345
Due to Government Service Insurance System (GSIS)	**849,980**	730,222
Due to PhilHealth	**127,767**	79,236
Due to Pag-IBIG	**44,850**	34,271
	20,705,975	23,645,190

Income tax payable pertains to the NDC's current tax liability based on 25 per cent regular corporate income tax in compliance with Republic Act No. 11534 or the Corporate Recovery and Tax Incentives for Enterprises Act.

Due to Treasurer of the Philippines pertains to cost of audit rendered by COA.

Due to BIR pertains to taxes withheld on salaries, goods, and services.

Due to GSIS, Pag-IBIG, and PhilHealth accounts represent premiums and loan amortization deductions from employees' salaries and employer share for remittance to the concerned offices.

21. TRUST LIABILITIES

This account consists of:

	2024	2023
Current	**107,482,499**	11,696,380
Non-current	**49,613,461**	43,006,081
	157,095,960	54,702,461

The *current account* refers to an escrow account for the shareholders of a former affiliate (see Note 11), bid bonds, and performance security received from bidders and suppliers.

The account also includes the inter-agency fund transfer from Department of Trade and Industry to NDC amounting P95.721 million, with interest from money-market placements, for the Philippine Innovation Hub – Marikina Enterprise Scale Up Hub or MESH Project (see Note 11).

Non-current account refers to security deposits received from various lessees under long-term lease.

22. DEFERRED CREDITS/UNEARNED INCOME

This account pertains to advance rental received from various lessees amounting to P19.072 million and P25.919 million in CYs 2024 and 2023, respectively.

In relation to the leases with various tenants, the NDC receives advance rentals upon signing the lease contracts, which the lessees can apply to the last three to four months of the leases.

23. PROVISIONS

This account consists of the following:

	2024	2023
Settlement of legal cases	**317,561,467**	313,806,761
Leave benefits	**8,951,124**	8,468,610
	326,512,591	322,275,371

Settlement of legal cases represents money payable to Sta. Ines Melale Forest Products Corporation (Sta. Ines), et al., involving a case filed to collect a sum of money.

On April 22, 1985, Sta. Ines et al. instituted a collection suit against NDC for the payment of advances made to Galleon and the value of their equity in the Corporation.

On September 16, 2003, the Regional Trial Court (RTC) ruled in favor of Sta. Ines et al. and ordered NDC to pay the total amount of P61.890 million with an interest of six per cent per annum from the date of the filing of the case in CY 1985 up to full payment, plus 10 per cent of the total amount due as attorney's fees, plus the cost of the suit.

NDC, through the Office of the Government Corporate Counsel (OGCC), appealed the case to the Court of Appeals (CA). The CA, in its Decision dated March 24, 2010, upheld the Decision of the RTC and increased the interest rate from six per cent per annum to 12 per cent per annum from the date of filing of the case until the satisfaction of the judgment award. NDC filed a Motion for Reconsideration of the said Decision. On July 21, 2010, the CA denied NDC's Motion for Reconsideration. On August 17, 2010, NDC filed a Petition for Certiorari with the Supreme Court (SC). On February 14, 2012, OGCC received an SC Resolution dated December 12, 2011, requiring NDC to file its comment to the Development Bank of the Philippines' petition. NDC, through the OGCC, filed a Motion for Extension of Time to File Comment on February 21, 2012. On March 21, 2012, OGCC filed a comment with a Motion to Consolidate the Case.

On February 1, 2017, the SC rendered a Decision affirming the March 24, 2010, Decision and the July 21, 2010, Resolution of the CA with modifications. On March 21, 2017, OGCC filed a Motion for Reconsideration. On July 26, 2017, OGCC filed its Consolidated Comment with a Motion to Refer the Case to the Court En Banc.

On July 1, 2020, OGCC forwarded a copy of Cuenca's Motion to Resolve re: Motion for reconsideration of the Decision dated February 1, 2017, and June 11, 2020.

On October 15, 2020, OGCC received the SC's order dated September 14, 2020. The Court noted the consolidated comment dated July 24, 2017 of NDC on the separate motions for partial reconsideration of respondents Cuenca, Tinio, Cuenca Investment Corporation, and Universal Holdings Corporation, and respondent Sta. Ines Melale Forest Products Corporation with a motion to refer the case to the Honorable Court En Banc and the motion to resolve re: motion for partial reconsideration on the decision dated June 11, 2020, of respondents Rodolfo Cuenca, Manuel Tinio, Cuenca Investment Corporation, and Universal Holdings Corporation.

On June 13, 2024 the case is declared final and executory. The Court rendered judgment denying with finality the NDC's Motion for Reconsideration, and declaring NDC as liable to pay Sta. Ines Melale the advances made and the payment for the shares of stock, attorney's fees and damages.

Leave benefits pertains to the accrual of the money value of leave credits earned by NDC employees as of December 31, 2024, and 2023, respectively.

24. OTHER PAYABLES

This account represents various unpaid personnel services, terminal leave, claims of former NDC employees who are already retired/resigned, and the provident fund established, which consists of contributions from both employees and employers. It serves as a loan facility and provider of supplementary benefits to its members, amounting to P6.568 million and P1.988 million in CYs 2024 and 2023, respectively.

25. BUSINESS INCOME

This account consists of the following:

	2024	2023 (As restated)
Lease income	**255,614,584**	221,421,194
Interest income	**147,185,379**	135,928,663
Share in profit of associates/affiliates	**34,023,754**	0
Dividend income	**8,087,659**	13,304,348
Management fees	**140,000**	140,000
	445,051,376	370,794,205

Lease income represents the revenue derived from the NDC's investment properties located in various parts of the country. NDC leases out its investment properties under an operating lease agreement with various entities and government agencies.

Lease contracts are negotiated for varying terms from one to twenty-five years with an option to renew clauses. An escalation rate ranging from six per cent to 10 per cent is imposed either yearly or at specific intervals, while in certain cases, the escalation rate is based on the actual inflation rate. Some lease contracts contain provisions stating that the lessee shall pay the real property taxes (RPT) for the leased premises.

The lease income earned by the NDC from its investment properties under operating leases amounted to P255.615 million and P221.421 million in CYs 2024 and 2023, respectively. Meanwhile, direct operating expenses consisting of RPT, security services, and repairs and maintenance of the properties incurred from these investment properties amounted to P25.339 million and P25.813 million in CYs 2024 and 2023, respectively (see Note 16).

Interest income consists mainly of interest income from bank deposits, investments in treasury bills, and loans.

Share in profit of associates/affiliates pertains to proportionate share in the profit of investee under-investment in associates.

Dividend income pertains to dividends received from its subsidiaries and other investments.

Management fees pertain to fees charged to its subsidiaries for services such as procurement, messenger, janitorial, and information technology.

26. GAINS

This account consists of the following:

	2024	2023 (As restated)
Gain from changes in fair value of investment property	**1,541,461,097**	4,430,015,539
Gain on sale of investment property	**39,893,910**	0
Gain on foreign exchange	**24,061,979**	1,314,853
Gain on redemption of investments	**0**	14,974,252
	1,605,416,986	4,446,304,644

Gain from changes in fair value of investment property pertains to the net increase in the fair value of investment properties based on the appraisal conducted in CYs 2024 and 2023.

Gain on sale of investment property pertains to the gain arising from disposal of the a portion of the Pandacan, Manila property in CY 2024.

Gain on foreign exchange represents the foreign exchange differential arising from the translation of foreign currency-denominated items.

Gain on redemption of investments pertains to the gain arising from the distribution of the Mintex Fund (See Note 11).

27. OTHER NON-OPERATING INCOME

This account consists of the following:

	2024	2023
Reversal of impairment loss	**2,039,299**	0
Sale of unserviceable property	**87,409**	495
Miscellaneous income	**4,778,231**	6,032,919
	6,904,939	6,033,414

Reversal of impairment loss pertains to the reversal of allowance for impairment of various receivable accounts recovered in CY 2024.

Sale of unserviceable property pertains to income from the sale of its various unserviceable properties.

Miscellaneous income includes income from assessment charges from lessees.

28. PERSONNEL SERVICES

This account consists of the following:

	2024	2023 (As restated)
Salaries and wages	**36,694,544**	30,301,117
Other compensation	**16,770,708**	13,253,776
Personnel benefit contributions	**5,045,144**	4,083,806
Other personnel benefits	**3,770,518**	3,224,526
	62,280,914	50,863,225

29. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2024	2023 (As restated)
Taxes and licenses	**67,443,128**	66,840,308
General services	**45,283,014**	39,596,498
Professional services	**14,477,373**	12,704,779
Confidential, intelligence and extraordinary	**7,592,292**	7,156,586
Repairs and maintenance	**5,491,049**	5,186,561
Supplies and materials	**5,176,088**	4,577,188
Utility	**3,817,017**	3,912,532
Traveling	**3,019,564**	2,181,408
Communication services	**1,746,325**	986,713
Training and scholarship	**1,101,617**	368,935
Other maintenance and operating expenses	**4,912,139**	4,847,200
	160,059,606	148,358,708

30. FINANCIAL EXPENSES

This account consists of the following:

	2024	2023
Interest expenses	**3,754,706**	3,754,706
Bank charges	**93,472**	171,120
	3,848,178	3,925,826

Interest expenses account pertains to interest charges paid for the use of borrowed money, bank, and financial charges.

Bank charges account pertains to the fee charged by banks for manager's checks and treasury bills.

31. NON-CASH EXPENSES

This account consists of the following:

	2024	2023 (As restated)
Loss on foreign exchange	**13,770,812**	4,179,779
Depreciation	**6,639,625**	4,771,374
Share in the loss of joint venture	**2,114,188**	2,028,094

	2024	2023 (As restated)
Impairment loss	**1,260,119**	3,163,665
Share in the loss of associates/affiliates	**0**	18,480,117
	23,784,744	32,623,029

Loss on foreign exchange represents the foreign exchange differential arising from the translation of foreign currency-denominated items.

Depreciation pertains to the periodic allocation of cost for the wear and tear of the NDC's property and equipment.

Share in the loss of joint venture pertains to the proportionate share of Philippine National Oil Company-Renewables Corporation and NDC in the profit or loss of Rizal Hydro Power Project.

Impairment loss pertains to the loss in the future economic benefits of the NDC's lease receivables.

Share in the loss of associates/affiliates pertains to the proportionate share in the profit or loss of the investee under-investment in associates/affiliates.

32. INCOME TAX EXPENSE

Income tax expense for the years ended December 31 consists of:

	2024	2023 (As restated)
Current	**149,387,779**	29,073,922
Deferred	**204,459,639**	1,107,388,497
	353,847,418	1,136,462,419

Reconciliation between statutory tax and effective tax is as follows:

	2024	2023 (As restated)
Income tax at statutory rate	**451,849,965**	1,159,911,603
Dividend income not subject to income tax	**(2,021,915)**	(3,326,087)
Income subjected to final tax	**(36,721,685)**	(33,805,518)
Share in net income of associates	**(8,505,938)**	(7,265,110)
Other reconciling items	**(50,753,009)**	20,947,531
	353,847,418	1,136,462,419

Analysis of deferred tax assets and deferred tax liabilities is as follows:

	2024	2023 (As restated)
Deferred tax assets on:		
Allowance for impairment	**614,121,588**	614,377,562
Unrealized foreign exchange loss	**3,442,703**	1,044,945
Deferred tax liabilities on:		
Rental receivables	**(14,474,456)**	(17,534,459)
Interest receivables	**(16,897,317)**	(22,800,789)
Investment property	**(7,770,801,498)**	(7,560,923,381)
Unrealized foreign exchange gain	**(6,015,494)**	(328,713)
Net deferred tax liability	**(7,190,624,474)**	(6,986,164,835)

33. SHARE CAPITAL

This account represents the capital infusion of the National Government (NG) from CYs 1937 to 2002 aggregating P8.603 billion. The NDC has an authorized capital stock of P10 billion, the amount to be subscribed by the NG and to be paid up in accordance with project funding requirements.

34. RETAINED EARNINGS

The components of retained earnings are summarized below:

	2024	2023 (As restated)
Retained earnings, beginning	**19,055,143,992**	15,693,397,536
Unrealized gain from the revaluation of Investment property	**1,541,461,097**	4,430,015,539
Income before tax, net of unrealized gain	**265,938,762**	157,345,936
Income tax expense	**(353,847,418)**	(1,136,462,419)
Dividend payment	**(156,291,319)**	(89,152,600)
Retained earnings, ending	**20,352,405,114**	19,055,143,992

As of December 31, 2024, the retained earnings balance reflects a material increase primarily attributable to the recognition of unrealized gains from changes in fair value of investment properties in accordance with the fair value model under Philippine Accounting Standard (PAS) 40.

The revaluation of investment properties resulted in an unrealized gain amounting to P1.541 billion and P4.430 billion for CYs 2024 and 2023, respectively, which was recognized under profit or loss and subsequently accumulated in retained earnings. However, these gains are non-distributable until realized through the sale or disposal of the assets. The unrealized gain may be subject to changes in subsequent periods based on current market conditions. The total unrealized gain since CY 2016 amounts to P28.740 billion, net of all realized gains from the disposal of investment properties.

35. RESTATEMENT OF ACCOUNTS

The 2023 financial statements were restated to reflect the following transactions/adjustments:

CY 2022 errors discovered in 2024

	December 31, 2022 (As previously reported)	Restatements/ Adjustments	January 1, 2023 (As restated)
STATEMENT OF FINANCIAL POSITION			
Investment Property	**27,033,272,204**	**(290,900,000)**	**26,742,372,204**
Adjustment on investment property		*(290,900,000)*	
Restatement of total asset – net decrease		(290,900,000)	
Financial liabilities	**616,100,350**	**(477,862)**	**615,622,488**
Over accrual of salaries, allowances, benefits, various maintenance and other operating expenses		*(477,862)*	
Deferred tax liability	**5,951,501,338**	**(72,725,000)**	**5,878,776,338**
Adjustment on deferred tax		*(72,725,000)*	
Restatement of total liabilities – net decrease		(73,202,862)	
Restatement of statement of financial position-net increase		**(217,697,138)**	

CY 2023 errors discovered in 2024

	December 31, 2023 (As previously reported)	Restatements/ Adjustments	December 31, 2023 (As restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net -current	**231,246,979**	**11,088,835**	**242,335,814**
Over accrual of rental receivables		*(2,410,895)*	
Over accrual of assessment fees		*(270)*	
Error in the presentation of loans receivable from noncurrent to current		*13,500,000*	

	December 31, 2023 (As previously reported)	Restatements/ Adjustments	December 31, 2023 (As restated)
Investment in associates/affiliates	**275,309,871**	**(47,540,558)**	**227,769,313**
Adjustment on investments related to equity share under-investment in associates		*(47,540,558)*	
Receivables, net -non-current	**79,111,059**	**(13,500,000)**	**65,611,059**
Error in the presentation of loans receivable from noncurrent to current		*(13,500,000)*	
Investment Property	**31,472,238,370**	**(290,899,000)**	**31,181,339,370**
Adjustment on investment property		*(290,899,000)*	
Restatement of total assets - net decrease		(340,850,723)	
Financial liabilities	**638,903,456**	**1,951,390**	**640,854,846**
Over and under accrual of salaries, allowances, benefits, various maintenance and other operating expenses		*1,951,390*	
Inter-agency payables	**23,616,605**	**28,585**	**23,645,190**
Adjustment to GSIS contribution		*28,585*	
Deferred credits/unearned income	**26,048,915**	**(130,000)**	**25,918,915**
Under amortization of unearned rent		*(130,000)*	
Other payables	**2,330,260**	**5,371**	**2,335,631**
Adjustment to Provident fund		*5,371*	
Deferred tax liability	**7,059,492,309**	**(73,327,474)**	**6,986,164,835**
Adjustment on deferred tax		*(72,724,750)*	
Under accrual of deferred tax for the year		*(602,724)*	
Restatement of total liabilities – net decrease		(71,472,128)	
Restatement of the statement of financial position – net decrease		**(269,378,595)**	
STATEMENT OF COMPREHENSIVE INCOME			
Lease income	**402,135,541**	**(31,341,336)**	**370,794,205**
Over accrual of rental receivables		*(31,341,336)*	
Other Income	**6,033,684**	**(270)**	**6,033,414**
Over accrual of assessment fees		*(270)*	
Gains	**4,446,303,644**	**1,000**	**4,446,304,644**
Adjustment on gain on revaluation of investment property		*1,000*	
Restatement of income-net decrease		(31,340,606)	

	December 31, 2023 (As previously reported)	Restatements/ Adjustments	December 31, 2023 (As restated)
Personnel Services	**50,571,131**	**292,094**	**50,863,225**
Adjustments on accrual of salaries, allowances and benefits		*292,094*	
Maintenance and operating expenses	**148,109,429**	**249,279**	**148,358,708**
Adjustments on accrual of various maintenance and operating expenses		*249,279*	
Non-cash expenses	**12,221,077**	**20,401,952**	**32,623,029**
Adjustment of investments on associates/affiliates and joint venture		*20,401,952*	
Deferred tax	**1,107,990,971**	**(602,474)**	**1,107,388,497**
Under accrual of deferred tax for the year		*(602,474)*	
Restatement of expenses – net decrease		20,340,851	
Restatement of the statement of comprehensive income – net decrease		***(51,681,457)***	

NDC presented three Statements of Financial Position in compliance with the requirements of PAS 1, *Presentation of Financial Statements,* to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

36. RELATED PARTIES

Key Management includes the Board of Directors, all members of Management, and other NDC Officers. Key Management compensation totaled P24.029 million and P19.497 million in CYs 2024 and 2023, respectively. The breakdown of the amounts is as follows:

	2024	2023
Salaries and allowances	**17,156,424**	13,646,846
Other Benefits	**6,872,378**	5,850,387
	24,028,802	19,497,233

37. COMPLIANCE WITH REPUBLIC ACT (RA) NO. 7656

Pursuant to Republic Act No. 7656, requiring Government-Owned or Controlled Corporations and their subsidiaries to declare dividends under certain conditions and remit the same to the NG, NDC remitted to the Bureau of the Treasury P156.291 million and P89.153 million in CYs 2024 and 2023, respectively.

38. CONTINGENCIES

In the ordinary course of business, the NDC became a party litigant to several cases/petitions filed for or against the NDC and pending before the appellate courts, the lower courts, and certain administrative bodies. These cases involve civil actions for the collection of sums of money, reconveyance of property/title, payment of just compensation, specific performance, and action for refund of taxes withheld.

Since the outcome of the cases cannot be determined, claims for assets and provisions for any liability that may result have not been recognized in the financial statements.

The details of NDC pending cases as of December 31, 2024 are as follows:

Title of Case	Nature	Amount	Status
NDC vs. JAO & Company. (CA-GR CV No. 50087 Civil Case No. R-81-1226 RTC-Manila, Br. 38).	Sum of money	P7.520 million plus six per cent interest per annum and liquidated five per cent damages for the principal obligation and interest.	On May 22, 2015, NDC received the court's Order dated September 22, 2014. The Motion for Execution filed by NDC through counsel was Granted. Waiting for the issuance of the Writ of Execution to implement the Decision of the Court dated March 20, 1995, which was affirmed in *toto* by the Court of Appeals (CA) in the Decision promulgated on July 28, 2005.

Title of Case	Nature	Amount	Status
Victoria Corcelles Abunda, et al. vs. NDC, et al. (DARAB Case No. X-678-SC-2000).	Reconveyance	No amount involved as the issue to be resolved is ownership.	As of December 2018, no other related documents have been received. Awaiting Court's Order for submission of position paper.
Liwanag L. Cruz, et al. vs. Juanito F. Galumo and Register of Deeds of South Cotabato. (Civil Case No. 12-4396, RTC-Br. 39, Polomolok, South Cotabato).	Annulment of deed of sale, reconveyance of real properties, damages with prayer for preliminary mandatory injunction	No amount involved as the issue to be resolved is ownership.	RTC issued Order dated November 13, 2023 re: Court considers the Notice of Appeal. On July 12, 2023, NDC filed a Notice of Appeal with the CA. On June 29, 2023, the Office of the Government Corporate Counsel (OGCC) received the Omnibus Order dated June 6, 2023, denying NDC's Partial Motion for Reconsideration (MR) with Manifestation of the Order dated December 2, 2020. The NDC's Partial MR was denied due course, while DARBCI's Motion for Execution was given due course. On May 2021, OGCC filed its Opposition to Motion for Execution and Reply to DARBCI's

Title of Case	Nature	Amount	Status
			Opposition to Partial MR of NDC. On March 31, 2021, DARBCI filed its Opposition for Partial MR of NDC and Motion for Execution of the Notice of Judgment on the Court order dated December 2, 2020. NDC filed a Partial MR praying that the properties be reconveyed instead to NDC. In the Order dated December 2, 2020, the court granted plaintiff's and DARBCI's Motion for Reconsideration and declared null and void the deed of sale allegedly executed by Cruz in favor of Galumo and the properties to be reconveyed to DARBCI.
Primo Gelacio vs. And Luzviminda Gelacio-Bahala v. NDC-Guthrie Plantations, Inc. & NDC Civil Case Nos. 560 & 561 GR No. 138736 (CA-GR CV No. 43924).	For recovery of possession with damages and attorney's fees.	P100,000, more or less (principal only).	On November 10, 2018, the Court issued a Writ of Execution, a copy of which was received by NDC on December 11, 2018. To date, no other related documents have been received.

Title of Case	Nature	Amount	Status
NDC represented by its Asst. General Manager, Esmeraldo E. Sioson vs. DAR, represented by its Provincial Agrarian Reform Officer (PARO) Pedro P. Gumbao, et al. (DARAB Case No. 10999. Reg. Case No. XI-608-SC-99).	Reconveyance	No amount involved as the issue to be resolved is ownership.	On September 17, 2020, OGCC received a copy of the Supreme Court's (SC) July 13, 2020 resolution noting the comments of Dolefil Agrarian Reform on NDC's MR dated July 11, 2018, and waiting for the comments of respondents DAR and Register of Deeds of south Cotabato on NDC's MR.
NDC vs. DAR & LBP. (Civil Case No. 7172 RTC-Branch I, Balanga, Bataan) LBP vs. NDC. (CA-GR-SP No. 99765 15th Division).	Determination of just compensation	P2.737 million	SC remanded the case to RTC to determine just compensation.
Heirs of Pacabis vs. NDC. (Civil Case No. 3442-0 Br. 35, Ormoc City).	Determination of just compensation	Per the Commissioner's Report, P40 per square meter involving 80,000 sq. m. or approximately P3.200 million (principal only).	The plaintiffs filed a Motion to Withdraw as counsel of the Plaintiffs dated August 4, 2023, for the Execution of Judgment. On March 23, 2023, OGCC received the March 9, 2023 Order. The Court found no basis to reconsider its Order dated March 12, 2021. The MR filed by NDC was denied. The Court ordered a Writ of Execution to be issued.

Title of Case	Nature	Amount	Status
NDC vs. Commissioner of Internal Revenue (CIR). [Department of Justice (DOJ) Case No. 91-06]	Refund of taxes	P0.660 million.	It was submitted for the DOJ's resolution. OGCC has yet to receive the CIR's resolution.
NDC vs. Hon. Jim O. Sampulna, in his capacity as Regional Executive Director of Department of Environment & Natural Resources (DENR), Region XII, Koronadal City, Sps. Valencia. CA-GR SP No. 02444 [Ildefonso Tabiling (Dec) (now Enriqueta Montaño) s. Pascual Boada, NDC represented by its GR or President and DOLE Phils.). RED CLAIM NO. 038-2003 CENRO CLAIM NO. 84 LOT NO. 13-Gss-390]	Petition for Certiorari with TRO or Preliminary Injunction	No amount involved as the issue to be resolved is ownership.	On January 7, 2014, OGCC received a Resolution dated November 19, 2013, directing the Division Clerk of Court to issue an Entry of Judgment in this case.
Mateo Rubio et al. vs. DOLE Phils., et al. (DARAB Case No. XII-1067-SC-2009).	For Declaration of Nullity of Transfer, Recovery of Possession Cancellation of Title of Lot No. 65 (1161) PLS 247-D	No amount is involved, as ownership is to be resolved in this case.	Last pleading filed on August 20, 2009: NDC filed its answer with Compulsory Counterclaim. As of June 11, 2012, no further court order or related pleadings have been received.
Teodora Denila vs. NDC/DOLE, DARBCI (RTC Br. 36, Gen San City)		- P2.541 million as back rentals - Rental from 1996 up to the present - 20 per cent Attorney's fees	The CA ordered the Appellants to file their respective briefs. Awaiting further instructions from CA.

Title of Case	Nature	Amount	Status
Philippine Associated Smelting and Refining Corp. (PASAR) v. NDC Case No. R-ORM-09-00009-CV RTC-Br. .35 Ormoc City CC R-ORM-15-00078-CV	For quieting of title with prayer for temporary restraining order and/or writ of preliminary injunction	No amount involved as the issue to be resolved is ownership.	Put on hold. PASAR paid arrears. Filed Manifestation and Compliance (with the Order dated March 17, 2023) on May 12, 2023. On March 16, 2023, OGCC received the copy of the Order (Constancia) dated February 17, 2023; the hearing set on February 17, 2023, was canceled and re-set to March 17, 2023 at 8:30 a.m. On January 9, 2023, OGCC received a copy of PASAR's Motion for Partial Reconsideration dated December 15, 2022 of the Decision dated July 1, 2022. On December 5, 2022, the RTC's Decision dated July 1, 2022 was received. NDC filed a Partial Motion for Reconsideration on December 20, 2022. PASAR also moved for reconsideration of the court's decision.

Title of Case	Nature	Amount	Status
NDC vs. CIR CTA Case 9633 Third Division.			The OGCC received on December 12, 2023 the CA En Banc Resolution dated November 30, 2023 re: resolves to Note the Compliance filed by the petitioner. On November 30, 2023, OGCC filed MR of the Court's November 13, 2023 Decision denying the petition. On November 16, 2023, OGCC filed Compliance of the November 13, 2023 Notice of Decision denying the petition for lack of merit. The OGCC received on November 15, 2023 the CA Decision dated November 13, 2023 re: petition for review is denied.

39. GENDER AND DEVELOPMENT (GAD)

The NDC allotted P884.054 million for the GAD program for the calendar year 2024. The NDC undertook various activities, but only P1.034 million was utilized during the year.

40. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth by the Bureau of Internal Revenue (BIR) Revenue Regulations No. 15-2010, hereunder is the information on taxes, duties, and license fees paid during the year:

a. Taxes and licenses (National and Local):

	2024	2023
Real estate tax	**34,538,578**	35,371,807
Mayor's Permit	**1,713,532**	1,595,657
Community tax certificate	**10,650**	10,500
Annual registration-BIR	**500**	500
	36,263,260	36,978,464

b. Withholding taxes paid:

	2024	2023
Tax on compensation	**6,721,515**	5,213,694
Creditable withholding taxes	**6,573,287**	12,473,317
	13,294,802	17,687,011

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The faithful representation of National Development Company (NDC's) Investment Property (IP) account amounting to P32.011 billion cannot be ascertained due to: a) inadequate disclosure; and b) inconsistencies between the records of NDC's work groups relative to the total area and status of investment properties, which are not in accordance with the specific provisions of Philippine Accounting Standard (PAS) 1.

1.1 Paragraph 15 of PAS 1 provides:

> *"<u>Financial statements shall present fairly the financial position, financial performance and cash flows of an entity</u>. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting (Conceptual Framework). <u>The application of PFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.</u>"*

1.2 Further, Paragraph 17 (c) of the same standard provides:

> *"In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable PFRSs. A fair presentation also requires an entity:*
>
> *(a) xxx.*
>
> *(b) xxx.*
>
> *(c) <u>to provide additional disclosures when compliance with the specific requirements in PFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.</u>"* (underscoring supplied)

1.3 Additionally, specific provisions of PAS 40 state:

> *"40 When measuring the fair value of investment property in accordance with PFRS 13, an entity shall ensure that the fair value reflects, among other things, rental income from current leases and <u>other assumptions that market participants would use when pricing investment property under current market conditions.</u>*
>
> *Xxx*
>
> *75 An entity shall disclose:*
>
> *Xxx*

(g) <u>the existence and amounts of restrictions on the realisability of investment property</u> or the remittance of income and proceeds of disposal.

Xxx

76 In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33–55 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:

Xxx

(d) net gains or losses from fair value adjustments;

Xxx; and

(g) other changes." (underscoring supplied)

1.4 Meanwhile, the Conceptual Framework for Financial Reporting identifies three characteristics of faithful representation: complete, neutral, and free from error.

1.5 NDC's IP account consists of 53 parcels of land, three buildings, one condominium unit, and two residential houses located in various cities and municipalities across the country. These properties are held to earn rentals under operating leases, capital appreciation, and project development.

1.6 Of the 53 parcels of land with an aggregate area of 12,828,764.79 square meters (sq. m), 16 were leased to various lessees, which generated income amounting to P255.615 million, while operating expenses were incurred, amounting to P25.339 million for CY 2024. NDC also incurred operating expenses amounting to P36.028 million for CY 2024 to maintain and secure the remaining 37 properties, which were either idle/vacant and/or occupied by illegal settlers, subject of a pending case in court or before investigative authorities, or not yet titled under NDC's name.

a) <u>Inadequate disclosure on Investment Property</u>

1.7 Review of the NDC's Notes to Financial Statements as of December 31, 2024[1] disclosed the following information on its IP account.

a. NDC's application of the fair value model;
b. Independent appraisers contracted by NDC to determine the fair value of each investment property;
c. Rental income from the investment properties;
d. Direct operating expenses arising from all investment properties during the period;
e. Information on the condition of some investment properties, including those that are occupied by illegal settlers; and
f. Gain or loss arising from changes in the fair value of investment properties, recognized in the Statement of Comprehensive Income.

[1] Based on Notes to Financial Statements submitted to the Audit Team on February 14, 2025.

1.8 However, disclosures of relevant information are not provided, among others:

a. Conditions or status of the investment property

- ***Pingag Property***. The property has an area of 85,555 sq. m., located in Sitio Pingag, Barangay Matlang, Isabel, Leyte. It was acquired by NDC pursuant to Letter of Instruction No. 962 dated November 23, 1979. Per Department of Environment and Natural Resources (DENR) – Provincial Environment and Natural Resources Office Order dated November 4, 1996, NDC is the listed Survey Claimant of Cadastral Lot 5044.

  In 2009, Management initiated the conduct of a relocation survey. In the same year, based on the Relocation Plan as surveyed for NDC, a big portion of the lot is within forestland, thus, not eligible for titling. Management then facilitated the conduct of a subdivision survey of the lot to segregate the forestland portion from the alienable and disposable (A&D) areas of the property.

  In a letter dated November 9, 2010, the DENR informed the NDC that the former cannot proceed with the approval of the subdivision plan since the entire area is within timberland. NDC was advised to apply for a Special Land Use Permit, if they opt to do so, pending the conversion of the land to A&D, which necessitates Congressional approval.

  On the other hand, the Tax Declaration of the property shows that it is classified as “Industrial”.

- ***Bantayan Property***. Subject property has an aggregate area of 5,297 sq. m, covered by Presidential Proclamation No. 2151, series of 1981[2] and is not declared as A&D. Under said proclamation, property was declared as part of *Wilderness Areas* wherein entry, sale, settlement, exploitation of whatever nature or forms of disposition, subject to existing recognized and valid private rights, if any, is prohibited.

  Moreover, this property is included in the National Integrated Protected Areas System[3], thus, utilization or disposal of the property is limited under certain conditions. On the other hand, the Tax Declaration of the property shows that it is classified as “Commercial”.

b. Investment properties that are the subject of a pending case in court or before investigative authorities

Per Register of Lands, NDC has at least three properties that are under litigation: a) San Dionisio, Parañaque City; b) Sta. Mesa, Manila; and c) Sucat, Muntinlupa properties. Of the three properties, only the Parañaque City property was disclosed to be the subject of a pending case in the Notes to Financial Statements.

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[2] An Act Declaring Certain Islands and/or Parts of the Country as Wilderness Areas.

[3] RA No. 11038 dated June 22, 2018 or An Act Declaring Protected Areas and Providing for Their Management, Amending for This Purpose Republic Act No. 7586, Otherwise Known as the "National Integrated Protected Areas System (NIPAS) Act of 1992" and for Other Purposes.

- Inquiry with Management disclosed that the case of Sta. Mesa, Manila property has been archived for a long time. Review of available documents showed that warehouses were constructed on the property, which have been occupied by a private entity. However, the unresolved status of the property hinders the contract negotiation with the occupant. Accordingly, the occupant regularly remits rental payments to NDC but records them under Trust Liabilities and Miscellaneous Long-term Liabilities.

  Considering that the rental payments[4] were not recognized and recorded as lease income, presentation of Sta. Mesa, Manila, property as an investment property with a Lease is improper.

- With regard to Sucat, Muntinlupa property, inquiry with Management disclosed that NDC has yet to file an arbitration case. In previous years, Management had already sought the assistance of the Office of the Government Corporate Counsel in the filing of arbitration proceedings against the joint venture partners for breach of contract.

c. Not yet titled under NDC's name

NDC has seven investment properties, including the San Dionisio, Parañaque property, that are not registered under NDC's name, despite the lapse of four decades. NDC acquired these properties through the assignment of assets, property dividends, and donations.

Review of the appraisal reports showed that the property rights appraised are in fee simple. Accordingly, fee simple is defined as absolute ownership, without limitations to any particular class of heirs or restrictions, but subject to the limitations of eminent domain, escheat, police power, and taxation. In Civil Law, fee simple is defined as *"absolute title; conferred without limitation, qualification or restriction".*

Considering that seven investment properties have yet to be registered under NDC's name, thus, appraisal thereof in *fee simple* takes no account of the properties' legal permissibility. The Audit Team does not question NDC's rights over the property, but for financial reporting and valuation thereof, such condition must be disclosed and considered in the appraisal of the property.

d. Presence of informal settlers in some investment properties

Review of the latest appraisal reports showed that there are three properties that have informal settlers, but were not considered in the valuation of the properties. The appraiser commented in one property that the marketability of land in its present state of having informal settlers is doubtful. But, still appraised the property as if vacant.

This is inconsistent with several investment properties, which considered the presence of informal settlers in the appraisal thereof.

[4] Receipts have a remark "acceptance with reservation and subject to final resolution of the case xxx"

1.9 Any information on the property's limitations, restrictions, or conditions will likely affect its fair value. Assuming the information discussed in Paragraph 1.8 was not considered in the valuation of the property, the probability of error in the estimation of fair value is high. As discussed in Paragraph 2.18 of the Conceptual Framework for Financial Reporting[5], "*a representation of that estimate can be faithful, if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate."*

1.10 Philippine Financial Reporting Standard (PFRS) 13 also provides that the fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use. Paragraph 28 of PFRS 13[6] provides:

> *"The highest and best use of a non-financial asset takes into account the use of the asset that is **physically possible**, **legally permissible** and **financially feasible**, xxx."*

1.11 In this regard, without considering the information discussed in Paragraph 1.8 in the valuation of properties, this would affect the assumptions made on the appraisal of the investment property. Likewise, the existence of restrictions on the properties affects the realizable fair value of the investment property.

1.12 Moreover, a complete depiction of Management's representation and disclosures shall include all information necessary for a user to understand the condition surrounding the investment property, incorporating all necessary descriptions and explanations. It may also entail explanations of significant facts about circumstances that might affect the properties' utilization and realizability.

1.13 Further, no disclosure was provided in the Notes to Financial Statements as regards changes in the IP account during CY 2024, which is not in accordance with Paragraph 76 of PAS 40, to wit:

a. In CY 2024, NDC sold 13,297.97 sq. m. of the 50,137.95 sq. m of the Pandacan Property to the Toll Regulatory Board. The subject area was directly affected by the Right-of-Way of the Metro Manila Skyway Stage 3 Project. However, this was not presented in the Notes on the IP account.

b. Likewise, the reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing net gains or losses from fair value adjustments, was not presented.

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[5] Revised in March 2018

[6] Much the same as Paragraph 140.5 of International Valuation Standard 104 Bases of Value

b) Inconsistencies between the records of NDC's work groups relative to the total area and status of investment properties

1.14 Additionally, the Audit Team noted inconsistencies between the records of the Accounting Unit (AU), the Asset Management Group (AMG), and the Treasury Unit (TU), as discussed hereunder:

a. The total area of the three properties varies between the records of AU, AMG, and TU as shown below:

Table 1 - Three-way Comparison of Records

	Appraisal of Investment Property per AU		Register of Lands/ Acquired Assets per AMG		Inventory of Titles per TU	
Location	**Document**	**Area***	**Document**	**Area***	**Document**	**Area***
M Fortich/ Libona, Bukidnon	Various	28,900,139	10996-997, 14306-307, 22276-277	6,511,239	14306-307; 22276-277; 10997	133,740
Calatagan, Batangas	T-30239-40	1,131	T-30239-40	1,131	T-30239-40	1,131
					T-34636	591
Langihan District, Butuan City	TDN GR-03-001-0022-R	6,933	08-03-0001-00034	6,933	Not available	Not available
			08-03-0001-00013	18,041	Not available	Not available

* Area in sq. m.

- From the above table, the three workgroups have different area measurements of the Bukidnon Property. Review of appraisal report thereof showed that the 28,900,139 sq. m. area consists of commercial land and residential land, pasture land, cemetery, road lots, and lots for conveyance to NDC.

- Further, per TU's Inventory of Titles of International Continental Bank assigned assets, the Calatagan, Batangas property, consisting of three lots, is supported by three titles. However, only two titles were present in the records of AU and AMG.

- Furthermore, the variance between the AU and AMG as regards Butuan City property pertains to an agricultural lot with a total area of 18,041 sq. m., while the TU has no available records for the Butuan Property.

b. The AU and AMG have different sets of data for investment properties with and without leases. Comparison of data from Notes to Financial Statements and Register of Lands showed that at least two properties were not consistently classified: San Andres & E. Quirino Ave., Manila, and Kamagong & Sampaloc Sts., Makati City properties.

The Manila property is classified as an investment property with a lease in the Notes to Financial Statements, which is not the case per AMG's records. Meanwhile, the Makati property is classified as an investment property without a lease in the Notes to Financial Statements, while AMG's records show that it has been leased since January 1, 2024.

c. The Bo. Bia-an, Mariveles, Bataan property per Register of Land and Schedule of Appraisal Report was presented as Mariveles, Bataan property in the Notes to Financial Statements and vice versa. Although the balance presented in the Notes to Financial Statements is correct, the locations of these properties were not accurately presented.

1.15 It is worth mentioning that in prior year's Audit Observation Memorandum, the Audit Team also noted a variance among the records of the three workgroups as regards the total area of Pureza, Sta. Mesa Property. Accordingly, the variance thereof pertains to a portion of the subject property already conveyed by NDC to a third party. Such variance is determined to be significant, that if not detected, would materially affect the fair market value (FMV) of Pureza, Sta. Mesa Property amounting to P4.464 billion as of December 31, 2023.[7] The presence of inconsistencies in the records of Management affects the faithful representation of the IP account.

1.16 It bears stressing that lease income amounting to P255.615 million is generated from its investment properties, valued at P32.011 billion for CY 2024, showing a turnover ratio of 0.78 per cent. The ratio measures NDC's efficiency in utilizing its properties. Meanwhile, any gains or losses from changes in the fair value of NDC's properties are not realized at the time of recognition, but upon disposal.

1.17 Consequently, during the Board Meeting held on July 21, 2023, the then NDC Chairman noticed that income from the assets has not been maximized. Also, the Chairman asked whether NDC's income came solely from gains in the revaluation. Evidently, users of financial statements, absent any relevant information in the Notes, may not fully understand the conditions surrounding the utilization of NDC's assets and the changes in investment properties' fair value.

1.18 The IP account aggregating P32.011 billion constitutes 85.55 per cent of the total asset of NDC. Thus, it is important to disclose relevant information[8] that will aid the users of the financial statements to assess the Management's stewardship of its economic resources. The absence or lack of additional relevant information on NDC's investment properties renders the presentation and disclosure of the account incomplete, affecting the faithful representation of the account in the Financial Statements contrary to Paragraphs 15 and 17 of PAS 1, and Paragraphs 40, 75, and 76 of PAS 40.

1.19 **We recommended that Management:**

a. Ensure proper coordination between the Accounting Unit, the Asset Management Group, the Treasury Unit, and the Legal Department to facilitate periodic reconciliation and updating of records of NDC's investment properties. Schedule of IP account, as an attachment to the Notes to Financial Statements, shall be validated and verified by these Offices;

b. Determine and reconcile the variances and inconsistencies noted in Table 1. Take appropriate action, as warranted;

[7] In CY 2023, Management adjusted the FMV of Pureza, Sta. Mesa Property in compliance with prior year's audit recommendation.
[8] By definition, relevant financial information is capable of making a difference in users' decisions.

c. **Disclose relevant information on existing conditions, limitations, and/or restrictions of investment properties, including changes in the account, in accordance with specific provisions of PAS 1 and 40. Periodically assess the information disclosed in the Notes to Financial Statement; and**

d. **Determine the existing conditions, limitations, and/or restrictions of investment properties, and ensure that this information is made available to independent appraiser/s for consideration in the appraisal of each investment property.**

1.20 Management commented that the AU, in coordination with AMG, TU, and Legal Department, should review and update the records of NDC's investment properties to ensure that the details of each property are accurate, reconciled, and properly monitored.

1.21 Management also provided the status of reconciliation on three investment properties presented in Table 1, and additional disclosures.

1.22 The Audit Team reviewed the status of reconciliation and noted that variances in Batangas and Butuan City Properties have yet to be reconciled.

1.23 As regards Bukidnon property, Management reconciled the variance among the work groups and provided adjusting entries to correct the carrying value of the property. Management also provided supporting documents on the reconciliation made. Accordingly, Management concluded that NDC has several parcels of land with an area of 9,506,867 sq. m. located in Municipalities of Manolo Fortich and Libona, Bukidnon, and 320,128 sq. m. located in Bugo District, Cagayan de Oro City. Both properties were leased to Del Monte Philippines Inc.

1.24 Review of the supporting documents showed that 19,393,272.00 sq. m. of the 28,900,139 sq. m. appraised in CY 2024 were lots that were supposedly for reconveyance to NDC but did not materialize. Thus, adjusting entries were made. Meanwhile, the 9,506,867 sq. m. of the Bukidnon Property was covered by Transfer Certificates of Title and several Tax Declarations.

1.25 However, the Audit Team observed that only 13,719 sq. m. of the total area of Bugo, Cagayan de Oro City, was appraised and recorded in the books of accounts of NDC. The 306,409 sq. m. portion of the Bugo, Cagayan de Oro City property was not recorded. Review of relevant documents provided by the Management disclosed that: 115,657 sq. m. is covered by the Foreshore Lease Agreement with the Department of Environment and Natural Resources – Community Environment and Natural Resources Office No. X-5-B, Cagayan de Oro City; 4,372 sq. m. was covered by a Tax Declaration; and the NDC's rights of use on the 186,380 sq. m. were yet to be established by Management. Thus, the value of these rights could not yet be established in the absence of additional data. Thus, further information provided in the Notes to Financial Statements was disclosed only to the extent of the data available to the Management.

2. Variances between the Rental Receivable balances per NDC books of accounts and confirmation results amounting to P25.966 million, and inadequate disclosure on long outstanding rental receivables aggregating P11.901 million, are contrary to Paragraphs 15 and 17 of PAS 1, respectively, affecting faithful representation of the Current Receivable account in the financial statements.

2.1 Paragraph 15 of PAS 1 provides that financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Accordingly, the application of Philippine Financial Reporting Standards (PFRSs), with additional disclosure, when necessary, is presumed to result in financial statements that achieve a fair presentation.

2.2 Further, Paragraph 17 (c) of the same standard provides that a fair presentation requires an entity to provide additional disclosures when compliance with the specific requirements in PFRSs is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance.

2.3 As of December 31, 2024, the rental receivable account has an outstanding balance of P57.915 million. The Audit Team, through the NDC Accounting Unit, sent 64 confirmation letters[9] to various NDC lessees to verify the correctness of the recorded rental receivable balance. Of the total confirmation letters sent, only 10 lessees responded, four of which showed unreconciled and unaccounted variances totaling P25.966 million. The summary of the results of the confirmation is shown in Table 2:

Table 2 - Results of Confirmation

Lessee	Balance per Schedule	Balance per Confirmation	Variance (Absolute)
Philippine Pharma Procurement, Inc.	9,203,757.70	31,340,514.45	22,136,756.75
Panay Railways, Inc.	4,899,744.57	8,708,955.97	3,809,211.40
Romeo B. Naguit	17,361.33	0.00	17,361.33
Board of Liquidators	2,782.00	0.00	2,782.00
TOTAL	**14,123,645.60**	**40,049,470.42**	**25,966,111.48**

2.4 Analysis and review of records of the above lessees in NDC's books of accounts for rental receivables revealed the following observations as presented in Table 3:

Table 3 - Analysis of Variance

Lessee	Remarks
Philippine Pharma Procurement, Inc. (PPPI)	Balance per Schedule only pertains to rental receivable from PPPI, while Balance per Confirmation includes PPPI's payable on assessment, parking, and office rentals of four floors (specific areas on Ground, 2nd, 12th floors, and penthouse) and utilities, thus, a variance amounting to P22.137 million. Review of available records showed that NDC has utilities receivable from PPPI amounting to P2.933 million only. Meanwhile, P6.186 million pertains to PPPI's accumulated lease payable on assessment, parking, and office rental of the penthouse from August 2020 to July 2024; however, no corresponding lease receivable was recorded in NDC's books of

[9] 58 confirmation letters were received by or mailed to respective lessees

Lessee	Remarks
	accounts during the same period. The Audit Team could not account for the rest of the variance with the available records at hand.
Panay Railways, Inc.	In CYs 2019 to 2021, the lessee confirmed a balance of "0" while no confirmation was received in CY 2022. However, in CYs 2023 and 2024, the lessee confirmed an outstanding balance of P8.909 million and P8.709 million, respectively.
Romeo B. Naguit	The variance pertains to the long outstanding balance in NDC's books of accounts.
Board of Liquidators	The variance pertains to the long outstanding balance in NDC's books of accounts.

2.5 Moreover, review of prior years' confirmation letters received from various lessees and trend analysis of the accounts from CYs 2019 to 2023 showed the following, as presented in Table 4:

Table 4 - Results per Confirmation and Trend Analysis

	Balances per Straight Schedule					Results of Confirmation				
Lessees	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Department of Trade and Industry (DTI)	1,647,865	1,647,865	1,513,291	1,513,291	1,996,543	0	0	n/a	0	n/a
Manila Pest Control	520,000	520,000	520,000	520,000	520,000	n/a	n/a	0	0	n/a
Spectrum Engineering & Consultancy	124,182	124,182	124,182	124,182	124,182	0	0	0	0	0
Al Amanah Islamic Bank of the Philippines.	120,168	120,168	120,168	120,168	120,168	n/a	0	n/a	0	0
Senate of the Philippines	12,839	12,839	12,839	12,839	12,839	n/a	0	0	0	0

* Not applicable (n/a) means no confirmation letter was received from the lessee for the period covered

2.6 Examination of available documents showed that the accounts in Table 4, except for DTI, have been outstanding for more than 10 years. Considering that the lessees' records showed no obligation/payable to NDC, necessitates reconciliation of accounts. Delaying the reconciliation further would affect the immediate settlement of these accounts, or derecognition, as warranted.

2.7 On the other hand, NDC has 12 rental receivable accounts aggregating P11.901 million, with a 100 per cent allowance for impairment, that have been outstanding for more than nine years. Details of these accounts are shown in Table 5:

Table 5 - List of Rental Receivable Outstanding for More Than Nine Years

Lessees	Amount	Years
Panay Railways, Inc.*	4,899,744.57	10+
Renato V. Diaz	2,930,135.96	9.5
Sweet Lines Inc.	2,693,035.71	10+
Manila Pest Control	520,000.00	10+
Sampaguita Travel Corp.	186,346.00	10+
Ecobay Property Management, Inc.	157,565.21	9.0
Spectrum Engineering & Consultancy	124,181.81	10+

Lessees	Amount	Years
Al Amanah Islamic Bank of the Philippines.	120,167.61	10+
Francisco, Merlando G.	106,531.38	10+
DTI/HITR	94,344.35	10+
Traveltipid.Com	56,036.17	10+
Senate of the Philippines	12,838.97	10+
TOTAL	**11,900,927.74**	

* Had payment in CY 2024

2.8 Review of the Notes to Financial Statements of NDC showed that not all information required for users to understand the status or condition of transactions is disclosed, specifically on long outstanding receivable accounts.

2.9 Useful information, such as aging of past due and/or outstanding rental receivable accounts or collectability/impairment of transactions or status of debtor's operations, is necessary for users of financial statements for their assessment of the amounts, timing, and uncertainty of NDC's future cash flows.

2.10 The Audit Team also noted the disclosure pertaining to rental receivable from PPPI amounting to P9.204 million, which represents the outstanding balance for leasing three floors of the NDC Building. Accordingly, in compliance with Section 7 of Bangko Sentral ng Pilipinas (BSP) Circular No. 1011, series of 2018, NDC ceased accruing rental income from PPPI since 2017, due to the latter's incurrence of significant losses and incapacity to pay its monthly rental and assessment.

2.11 However, review of Section 7 of BSP Circular No. 1011 showed that:

> *"**Section 7.** Subsection X305.4 of the MORB and Subsections 4305Q.4, 4312N.6 of the MORNBFI, are hereby amended to read as follows:*
>
> ***"Subsection X305.4/4305Q.414312N.5 Accrual of interest earned on loans and other credit accommodations**. Accrual of interest earned on non-performing loans and other credit accommodations shall not be allowed. xxx""* (underscoring ours)

2.12 The above-quoted provision categorically states that the accrual of interest earned on loans and other credit accommodations[10] are not allowed, hence, only the interest earned from the rental income shall not be accrued, but not the principal. Examination of available documents showed that a Contract of Lease on the Penthouse of NDC Building, with escalating annual rental fees, was executed between NDC and PPPI; however, no accrual of income was recorded in the books of accounts of NDC. Thus, the cessation of accruing rental income and the related disclosure thereof is misapplied.

[10] BSP Circular No. 463, s. 2004 dated December 29, 2004, provides that the term other credit accommodations shall refer to exposures of banks and NBQBs other than loans such as sales contract receivables, accounts receivables, accrued interest receivables, lease receivables, and rental receivables.

2.13 In view of the foregoing, the correctness and reliability of the recorded rental receivables account balance in NDC's books of accounts are uncertain. Likewise, the absence of additional disclosures on the long outstanding rental receivables and the misapplication of the BSP Circular render the presentation and disclosure inadequate and inaccurate. Thus, the faithful representation of the reported amount and the related disclosures is doubtful.

2.14 **We recommended that Management:**

a. **Coordinate with the concerned lessees to reconcile the variance with NDC records. Make necessary adjusting entry and/or demand collection therefrom, as the case may be. Furnish the Audit Team a copy of the reconciliation made and/or letters sent to lessees;**

b. **Prepare a detailed aging schedule of outstanding rental receivables to properly assess the need for recognition of an allowance for impairment, in accordance with NDC's accounting policy. Furnish the Audit Team a copy thereof;**

c. **Provide a detailed explanation and submit supporting documentation to substantiate Management's representation on the cessation of accruing rental income from PPPI, in compliance with BSP Circular No. 1011; and**

d. **Prepare and submit necessary and appropriate disclosures, such as those relating to the collectability/ impairment of receivables or the status of debtor's operations, to achieve fair presentation of the Receivables account. Periodically review and assess the adequacy and relevance of the information disclosed in the Notes to Financial Statements in compliance with PAS 1.**

2.15 In response, Management provided a Schedule of Rental Receivables, with remarks on the status of each account, and a Schedule of Aging thereof.

2.16 Further, Management commented that PPPI is an affiliate of NDC, owning 40 per cent of the former's shares. Since CY 2011, PPPI has continuously incurred operational losses, resulting in its failure to pay rent and other miscellaneous charges to NDC. In CY 2017, due to PPPI's negative financial status, Management decided not to renew its lease contract, and advised the former to vacate the 2nd floor of the NDC Building and transfer to the penthouse. Thus, NDC stopped recognizing the rental income from the books of accounts.

2.17 Management also commented that a lease contract was executed between NDC and PPPI in CY 2022, solely for the purpose of facilitating the renewal of the latter's business permit. The COA Audit Team assigned to PPPI has repeatedly issued audit observations regarding PPPI's going concern status. Until now, PPPI has not recovered from its financial losses. Further, Management stated that PPPI's cash balance remains low, ranging only from approximately P3 million to P5 million. Thus, PPPI cannot pay its rental obligations, despite NDC's issuance of billing invoices.

2.18 On the other hand, Management provided additional disclosures as regards collectability/impairment of receivables.

2.19 The Audit Team examined the Schedules provided by Management and observed the following:

a. Remarks of the Accounting Unit (AU) on the variance with Panay Railways, Inc. disclosed that a follow-up letter and supporting documents will be sent to the latter for the collection of its remaining balance. However, inquiry with the AU revealed that the balance is to be verified pending reconciliation between NDC and Panay Railways. Thus, the Audit Team reiterated that reconciliation between the records of both entities should be made immediately to establish the correct amount of Panay's remaining balance with NDC.

b. Further, remarks of the AU on other accounts showed that these were considered dormant and will be included in their request for write-off. However, reconciliation of accounts will first be made, considering that the enumerated lessees claim that they do not have outstanding balances as shown in Table 4. The Audit Team recommended that AU review, analyze, and determine the existence and validity of the account balances.

2.20 As regards receivables from PPPI, the Audit Team acknowledges the present financial condition of PPPI. However, based on the explanation of Management regarding the non-recognition and recording of rental income, the legal basis (BSP Circular No. 1011) used by Management appears to be inappropriate, as it pertains only to the non-recognition of interest and does not extend to the principal amount. Management provided justification on the non-recognition of rental income, and the same was disclosed in Note 6 of the Notes to Financial Statements.

3. The faithful representation of the recorded Property and Equipment (PE) account with carrying amount of P190.296 million was not attained, due to: a) variances amounting P8.630 million between the balances of PE items in the Subsidiary Ledgers (SLs) and those in the lapsing schedule used to compute depreciation/accumulated depreciation; and b) missing PE items costing P31.170 million that still remain in NDC's books, contrary to Paragraph 15 of Philippine Accounting Standards (PAS) 1.

3.1 Paragraph 15 of PAS 1 provides that financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses.

a) <u>Variances amounting to P8.630 million between the balances of PE items in the SLs and those in the lapsing schedule</u>

3.2 Analysis of the Inventory Report prepared by the Administrative Unit (AdU) against the SLs maintained by the Accounting Unit (AU) showed no variance in PE items. However, review of SLs and lapsing schedule of PE items as of December 31, 2024, showed variances as follows:

Table 6 – Summary of Variances

Account Number	Account Name	Lapsing Schedule	SLs	Variance	Remarks
10604011	Accumulated Depreciation - Buildings	1,159,680,769	1,159,737,800	57,031	The variance pertains to unreconciled depreciation equivalent to 11 months.
10605020	Office Equipment	6,726,921	7,458,522	731,601	Unreconciled variance.
10605021	Accumulated Depreciation - Office Equipment	6,975,153	7,314,605	339,452	Unreconciled variance.
10605031	Accumulated Depreciation - Information and Communication Technology Equipment	13,395,691	13,371,125	24,566	Unreconciled variance.
10605131	Accumulated Depreciation - Sports Equipment	341,601	339,720	1,881	Variance pertains to 1 month depreciation not included in the SL
10606011	Accumulated Depreciation - Motor Vehicles	17,270,030	9,800,238	7,469,792	Variance pertains to mathematical errors in the lapsing schedule for the depreciation of Nissan Terra.
10607011	Accumulated Depreciation - Furniture and fixtures	1,036,725	1,042,249	5,524	Unreconciled variance.
Total				**8,629,847**	

3.3 Inquiry with accounting personnel revealed that the variance was due to the balances yet to be encoded in the system in CY 2025. However, further analysis of the variance as presented above also showed lapses in the monitoring of depreciation expenses.

3.4 The SLs are the basis of NDC in preparing financial statements, while the lapsing schedule is used as a basis for monitoring and recording depreciation of PE items in the SLs. Thus, both records must agree at all times.

3.5 The presence of unreconciled variance on the ending balances of SLs and lapsing schedule casts doubt on the reliability and accuracy of the amounts of PE.

3.6 **We recommended that Management:**

a. **Reconcile the PE balances in the Lapsing Schedule against SLs and reflect changes in the Financial Statements, if warranted; and**

b. **Perform regular monitoring and reconciliation of both records.**

3.7 Management provided reconciliation of variances and necessary adjustments in the CY 2024 ending balances, and submitted an updated lapsing schedule, which has been reconciled with the SLs. Also, Management commented that they are implementing monthly monitoring and reconciliation for both SLs and the lapsing schedule.

3.8 Inquiry with the AU disclosed that the adjustments on the balances of PE items in the accounting records have yet to be communicated with the AdU for the reconciliation of the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and the PE inventory.

3.9 The Audit Team will monitor Management's subsequent actions.

b) <u>Missing PE costing P 31.170 million remains in NDC's books for several years</u>

3.10 This is a reiteration of the prior year's audit observation with updated information.

3.11 Review of the RPCPPE dated December 31, 2024, disclosed that PE items amounting to P31.170 million, were not found during the physical inventory count. These items were noted to be fully depreciated already. Details are presented in Table 7:

Table 7 - Summary of Missing PE Items

Account Number	Account Name	Amount
10604010	Buildings[11]	24,377,103
10605030	Information and Communication Technology equipment	4,881,461
10606010	Motor Vehicles	1,335,977
10607010	Furniture and fixtures	81,300
10605021	Other Property, Plant and Equipment	494,004
Total		**31,169,845**

3.12 The above PE items have been missing for several years. Inquiry with the AdU revealed that these missing PE items, as indicated in the RPCPPE, were attributed to the absence of proper turnover during the reorganization of NDC in CY 2003. The AdU has yet to submit the required accountability report for these items.

3.13 Result of the physical inventory count conducted by NDC's Inventory Committee in Leyte on October 22-24, 2024, showed that PE items amounting to P25.713 million were missing. Among the missing PE items, it was disclosed by a LIDE Management Corporation (LMC) personnel that the unserviceable NDC vehicles in Matlang, which remained in the location after Typhoon Yolanda, were disposed of by LMC through sale without NDC's knowledge. According to them, typhoon Yolanda wiped out all documents pertaining to property accountability.

3.14 Additionally, during the inspection at the NDC Port Complex, personnel from Philippine Phosphate Fertilizer Corporation (PhilPhos) disclosed that NDC possesses only three cranes, instead of six, based on their contract, and that the other three cranes may be owned by PhilPhos contractors. Of the three cranes attributed to the NDC, only one was physically located on-site, while the other two were reported as missing. Further discussions on the status of the properties located in the Wharf complex disclosed that two tugboats, which were not found during the inspection, were reportedly undergoing repairs by PhilPhos without the knowledge or formal authorization of NDC.

3.15 The NDC Management has requested the Managements of PhilPhos and LMC for a status report on the missing items through an email dated October 28, 2024. The NDC Management has yet to receive the reports.

[11] Budlings account consists of heavy/mobile equipment and line boat at NDC Port Complex, LIDE Isabel, Leyte

3.16 Commission on Audit (COA) Circular No. 2020-006 dated January 31, 2020, provides guidelines on the disposition of non-existing/missing PE items, for the one-time cleansing of PE account balances. Under the said COA Circular, the Property Unit is directed to verify if these assets have already been disposed of or transferred/donated to other government agencies.

3.17 If such is not the case, the Property Unit shall be responsible for determining the person/s accountable for non-existing/missing PE items. The accountable person/s shall be required to produce/present the items. In case where accountability could not be established despite diligent efforts, the Head of the Agency shall cause the conduct of an investigation to determine the last known location of the missing PE item. If the accountable person was determined liable after the investigation, a demand shall be made upon the personnel; otherwise, authority for derecognition of the missing PE items from the books of accounts may be requested from the COA.

3.18 Additionally, the RPCPPE showed that the PE includes fully depreciated unserviceable items amounting to P1.908 million.

Table 8 - Unserviceable PE Items

Account Number	Account Name	Amount
10605020	Office equipment	705,428
10605030	Information and Communication Technology equipment	974,251
10605130	Sports equipment	228,749
Total		**1,908,428**

3.19 **We reiterated our prior year's recommendations that Management:**

a. **Submit the list of non-existing/missing PE items in the RPCPPE, and investigate to determine accountability over the missing PE items;**

b. **File a request for authority to derecognize/write-off non-existing/missing PE items from COA, duly supported with required documentation, if no person can be found accountable after investigation, pursuant to COA Circular No. 2020-006 dated January 31, 2020;**

c. **Prepare an updated Inventory and Inspection Report of Unserviceable Property (IIRUP) for CY 2024, and instruct the disposal Committee to undertake immediate disposal of the remaining idle and unserviceable PE items; and**

d. **Direct the Accounting Unit to derecognize the unserviceable PE items in the books of accounts upon disposal or when no future economic benefits are expected from their use.**

3.20 Management commented that the AdU, in coordination with the AU, will submit the list of non-existing/missing PE items and will exert effort to identify the persons accountable for those items. Further, Management will request authority to derecognize non-existing/missing PE items.

3.21 Furthermore, Management commented that an IIRUP as of December 31, 2024, was submitted to the Disposal Committee on May 8, 2025.

3.22 The Audit Team will monitor Management's compliance with COA Circular No. 2020-006.

4. The faithful representation of the Due to Treasurer of the Philippines account amounting to P6.976 million was not attained due to unreconciled variance of NDC's payable to the COA amounting to P13.002 million.

4.1 This is a reiteration of the prior year's audit observation with updated information.

4.2 On January 22, 2025, the Officer-in-Charge of the COA-Finance Office, Planning, Finance, and Management Sector (PFMS) sent a Demand Letter to NDC as of January 21, 2025. The Demand Letter showed an unremitted balance of P27.939 million. The NDC paid P7.961 million in February 2024 for the cost of the audit for CY 2023, but the payment was not reflected in the demand letter.

4.3 Per NDC's books of accounts the outstanding balance is P6.976 million. Hence, a variance of P13.002 million[12] between the records of NDC and COA.

4.4 The breakdown of the variance is as follows:

a. The amount of P0.568 million represents the difference between the paid cost of audit services for CY 2020 and the accrued balance per NDC's books of accounts amounting to P6.297 million and P5.729 million, respectively.

b. The P0.565 million amount pertains to the payment made by NDC from 1993 to 1995 for the CY 1993 assessment but was not in COA's records.

c. The remaining variance of P11.869 million was attributed to the balances from CYs 1990 to 2018 cost of audit services. The reason for this discrepancy was due to the failure to reconcile and adjust the amount assessed/billed by COA to NDC for auditing services against the actual cost of audit services paid by NDC. Apparently, the assessment billed by COA was based on the budget estimates prepared by the Team assigned at NDC, while NDC paid the cost of audit services based on the actual cost incurred for a specific year. Thus, a difference of P11.869 million accumulated from CYs 1990 to 2018.

4.5 In the CY 2019 audit, the Audit Team communicated the issue of unremitted cost of audit services through an Audit Observation Memorandum, which was subsequently reiterated in CYs 2022 and 2023. The Audit Team has recommended that NDC reconcile with COA-PFMS to address the difference between the assessment billed and the actual cost incurred; remit the balance of the cost of audit services to the Bureau of the Treasury (BTr); and furnish COA-PFMS with its proof of remittance. However, NDC has not yet reconciled the variance with COA-PFMS and/or remitted any balance.

4.6 Inquiry with the Accountant disclosed that in CY 2024, the AU requested from the COA-PFMS copies of billing statements from CYs 1990 to 2018. Relative thereto, the

[12] Net of unrecorded payment amounting P7.961 million.

AU was able to retrieve supporting documents for COA Audit Fees for CYs 1994 to 2018. However, the AU is still locating relevant documents for CYs 1990 to 1993.

4.7 The presence of an unreconciled variance casts doubts on the accuracy and reliability of the account balance as of the reporting period, affecting its faithful representation in the financial statements under Paragraph 15 of PAS 1.

4.8 We reiterated our prior year's recommendations that Management:

a. Require the AU to expedite gathering of records to reconcile with the COA Finance Office, PFMS, the discrepancy between the assessment billed and the recorded cost of audit services, and prepare adjusting entries, if warranted;

b. Remit the balance of the cost of audit services due to COA through the BTr, and furnish the COA Finance Office, PFMS, a copy of proof of remittance for easy reference and reconciliation of NDC's and COA's records; and

c. Henceforth, conduct periodic monitoring and reconciliation of records between NDC and COA pertaining to the cost of audit services.

4.9 Management commented that the AU has already retrieved the documents to support the remittances made by NDC, except for the year CY 1990. NDC will submit these documents to COA-PFMS and request for reconciliation.

4.10 Management also commented that NDC will remit the balance of the cost of audit services once the records are reconciled with the COA-PFMS.

4.11 The Audit Team will monitor Management's subsequent actions.

B. OTHER OBSERVATIONS

5. The fidelity bonds of several NDC Accountable Public Officers (APOs) are inadequate compared to their respective accountability, contrary to Section 101 of Presidential Decree (PD) No. 1445[13] and Item 5.1 BTr Treasury Circular (TC) No. 02-2019[14], thereby exposing the NDC to potential risks in case of defalcations, shortages, and unrelieved losses.

5.1 Section 101 of the PD No. 1445 provides:

*"**Section 101.** Accountable officers; bond requirement.*

1. *Every officer of any government agency whose duties **permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law**.*

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[13] Ordaining and Instituting a Government Auditing Code of the Philippines

[14] Revised Omnibus Regulations Governing the Fidelity Bonding of Accountable Public Officers (Sections 313-335 Chapter 15, Revised Administrative Code of 1917)

2. *Every accountable officer shall be* ***properly bonded in accordance with law.****"* (emphasis supplied)

5.2 Likewise, Items 4.1.1, 4.1.5, and 4.1.6 of the TC No. 02-2019 dated April 25, 2019, and Item 4.1.7 as supplemented by TC No. 1-2022[15] dated May 30, 2022, provide:

> *"**4.1.1** Every officer, agent, and employee of the Government of the Republic of the Philippines, its agencies and instrumentalities, GOCCs, and SUCs, regardless of the status of their appointment, whenever the nature of the duties performed by such officer, agent or employee* ***permits or requires the possession, custody or control of public funds or properties for which he/she is accountable,*** *be deemed a bondable officer and shall be bonded or bondable and his/her fidelity insured.*
>
> *Xxx*
>
> ***4.1.5*** *Public officers designated as authorized signatories, counter or alternate signatories in government bank accounts of his/her Government Agency, issuance of checks or Authority to Debit Account (ADA), approval of disbursement vouchers, and, those in custody of accountable forms.*
>
> ***4.1.6*** *Head of any Government Agency who is immediately and primarily responsible for all government funds and property pertaining to his/her Agency.*
>
> ***4.1.7*** *Public officers designated as Property Officers, Supply Officers, Disbursing Officers, Collecting Officers and Cashiers."* (emphasis supplied)

5.3 Item 5.1 of TC No. 02-2019 also provides the following:

> *"**5.1 Amount of Bond** – The Amount of bond shall be based on the total accountability (cash, property and accountable forms) of the accountable officer as determined by the Head of Agency. Provided, the individual maximum amount of bond of each accountable officer shall not exceed Eleven Million Pesos (P11M). However, the Head of the Agency may assign to other accountable officers the excess accountability for which a separate Fidelity bond shall be secured."*

5.4 Review of the bond confirmation letters issued by the BTr to the respective APOs for calendar year (CY) 2024 showed the following:

Table 9 - Summary of Bond and Accountability

Approved Amount of Bond	Approved Amount of Accountability	No. of APOs
3,500,000	25,000,000	3
500,000	1,000,000	8
100,000	250,000	4

[15] Supplemental Guidelines on the Revised Omnibus Regulations Governing the Fidelity Bonding of Accountable Public Officers (Sections 313 – 335, Chapter 15, Revised Administrative Code of 1917). Item 3.1 thereof provides additional Sub-section in 4.1 of Treasury Circular No. 02-2019.

Approved Amount of Bond	Approved Amount of Accountability	No. of APOs
75,000	100,000	2
60,000	80,000	1
45,000	60,000	1
37,500	50,000	1
22,500	30,000	4

5.5 Table 9 shows that only three APOs have the maximum accountability of P25 million, who are personnel of the NDC Treasury Unit (TU). Meanwhile, eight APOs, consisting of the Assistant General Managers (AGMs) and other authorized signatories, have a maximum accountability of P1 million only.

5.6 Examination of NDC's transactions for CY 2024 disclosed that at least 142 transactions, aggregating P10.485 billion, have a value exceeding P1 million. Among these, 34 transactions have a value exceeding P25 million, totaling P10.137 billion. Further scrutiny showed the nature of these transactions, as summarized below:

Table 10 - Summary of Transactions

Nature of Transactions	No. of Transactions	Sum of Transactions
Investment	49	9,514,868,289
Tax	32	240,214,807
Payroll	25	30,067,591
Deposit	21	458,108,487
Procurement	6	18,325,804
Unreleased	4	52,185,586
Expense	2	12,592,219
Dividends	2	156,291,319
Insurance	1	2,048,596
Total	**142**	**10,484,702,699**

5.7 Audit of several transactions from Table 10 disclosed that:

a. Investment – transactions mostly pertain to money market placements, wherein each Bank Advice is signed by at least two signatories. The same is true for releases of funds to NDC's investees.
b. Tax – each Bank Advice is signed by at least two signatories.
c. Payroll – payroll debit memo is signed by at least two signatories.
d. Deposit of collections – two collections and subsequent deposit thereof, evidenced by service invoices and deposit slips, respectively, exceeded the total maximum accountability of the collecting officer. Notably, these types of collections are not regular.
e. On other transactions, check for payment or purchase of Manager's Check is also signed by at least two signatories.

5.8 Based on the foregoing, several transactions of NDC for CY 2024 exceeded the maximum accountability of respective APOs, which is not in accordance with PD No. 1445 and TC No. 02-2019. For some transactions, even though there are at least two signatories, the transaction value still exceeds the combined amount of their total accountability.

5.9 Review of NDC Manual of Approvals showed that the approving authority on transactions greater than or equal to P1 million is at least the head of the agency and/or the AGMs, as the case may be. Evidently, when Management crafted the Manual of Approval, it already expected the concerned NDC officials to incur transactions more than P1 million. However, per the BTr Confirmation letter[16], the Approved Amount of Accountability for said officials is only P1 million. Necessarily, Management should consider adjusting its accountability and the corresponding bond equivalent.

5.10 Further, it was noted that the NDC has no designated property officer or custodian; thus, accountability for public property rests on the Head of the Agency, who is primarily responsible for all government funds and properties. To reiterate, the TC covers both public funds and properties for which an officer or employee is accountable.

5.11 For information, the Head of the Agency may designate a property officer to ensure effective implementation and proper accounting of property accountabilities under Section 40, Chapter 8, Book IV of Executive Order No. 292 or the Administrative Code of 1987, to wit:

> *"**SECTION 40.** Delegation of Authority.—The Secretary or the head of an agency shall have authority over and responsibility for its operation. He shall delegate such authority to the bureau and regional directors as may be necessary for them to implement plans and programs adequately. Delegated authority shall be to the extent necessary for economical, efficient and effective implementation of national and local programs in accordance with policies and standards developed by each department or agency with the participation of the regional directors. The delegation shall be in writing; shall indicate to which officer or class of officers or employees the delegation is made; and shall vest sufficient authority to enable the delegate to discharge his assigned responsibility."*

5.12 The Fidelity Bond is available in case of defalcation, shortage, unrelieved losses in the accounts of bonded APOs, for the payment of fees and costs incident to civil proceedings, as warranted, brought against them to recover sums paid on their account from said bond. As such, if the APOs are inadequately bonded, any amount that would exceed his/her maximum accountability may not be recovered, exposing NDC to potential loss in cases of defalcations, shortages, and unrelieved losses.

5.13 We recommended and Management agreed to:

a. Evaluate its transactions to determine the appropriate maximum accountability of respective APOs and the effective bonding to be applied thereof. Take appropriate action to adjust the amount of accountability and corresponding bond equivalent of the APOs, as warranted; and

b. Determine the necessity of designating a property/supply officer to be accountable for NDC's inventories, property, and equipment.

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[16] Transmittal No. 13D3-2024-12-02879 dated December 12, 2024

6. Dormant receivable accounts were not requested for write-off, and the related Schedule thereof was not prepared and submitted by NDC to the Audit Team, contrary to the provisions of COA Circular No. 2023-008[17].

6.1 This is a reiteration of the prior year's audit observation with updated information.

6.2 Section 5.7 of COA Circular No. 2023-008 dated August 17, 2023, defines Dormant Receivable Accounts as:

> *"5.7 Dormant Receivable Accounts – accounts which balances remained inactive or non-moving in the books of accounts for ten (10) years or more and where settlement/collectability could no longer be ascertained."*

6.3 Further, Sections 6.2 to 6.5 of the same COA Circular provide:

> *"6.2 All government entities shall determine the existence of dormant accounts in their books.*
>
> *6.3 When accounts are non-moving for ten (10) years or more, the Head of Accounting Unit shall prepare the following schedules, for monitoring purposes, to be submitted to their respective Audit Team Leader (ATL)/Regional Supervising Auditor (RSA)/Supervising Auditor (SA):*
>
> *a. Schedule of Dormant Receivables, Unliquidated Cash Intra/Inter-Agency Fund Transfers **(Annexes 1-3)**; and*
>
> *b. Schedule of Other Dormant Accounts **(Annex 4)**.*
>
> *6.4 The entity shall determine whether the dormant accounts identified are covered by specific laws, rules and regulations prescribing guidelines for the proper disposition and/or procedures to address the issue on dormancy.*
>
> *6.5 If the dormancy of an account cannot be addressed through Item 6.4 above, then the entity shall apply the procedures prescribed by this Circular."*

6.4 Furthermore, Section 7 provides the detailed procedures for the proper disposition of dormant accounts. Dormant receivables account shall be derecognized from the books of accounts of NDC only upon the grant of specific authority from the COA.

6.5 As of December 31, 2024, NDC's Non-Current Receivables account has a balance amounting to P2.309 billion, with allowance for impairment losses amounting to P2.197 billion, leaving a net balance of P111.657 million. Of the total Non-Current Receivable account, P1.246 billion pertains to dormant receivables.

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[17] Guidelines on the Proper Disposition of Dormant Accounts of National Government Agencies (NGAs) and Instrumentalities, Local Government Units (LGUs) and Government Corporations (GCs), Amending COA Circular No. 2016-005 dated December 19, 2016 re: Guidelines and Procedures on the Write-off of Dormant Receivable Accounts, Unliquidated Cash Advances, and Fund Transfers of NGAs, LGUs and GCs

6.6 The observation on Dormant Receivables was raised in prior years' audits, and the Audit Team has recommended that Management request authority from the COA to write off these dormant receivable accounts. However, several requests from Management were returned by the Audit Team due to incomplete or a lack of supporting documents.

6.7 In response, Management commented that the Accounting Unit (AU) is currently gathering all the required documentation necessary to comply with the requirements of COA Circular No. 2023-008 and will resubmit the request for authority to write off once completed.

6.8 The Audit Team also recommended that Management prepare and submit the Schedule of Dormant Receivable Accounts in compliance with Section 6.3 of COA Circular No. 2023-008. However, to date, no schedule has been prepared and submitted to the Audit Team in CY 2024.

6.9 In view of the above, Management shall assess and monitor the existence of dormant accounts, thereafter, determine the proper disposition of these accounts in accordance with COA Circular No. 2023-008. However, Management is reminded that this should not be interpreted as NDC condoning/extinguishing the obligation of the accountable officer/debtor. Management should still exhaust all possible means to recover and monitor these long-overdue/outstanding accounts.

6.10 We reiterated our previous year's recommendations that Management:

a. Require the AU, in coordination with its Legal Department, to complete all the required supporting documents per COA Circular No. 2023-008 on the proper disposition/ closure of dormant accounts, and resubmit the request for authority to write off dormant accounts with the COA; and

b. Prepare and submit to the Audit Team the Schedule of Dormant Receivables, Unliquidated Cash Advances, and Intra/Inter-Agency Fund Transfers in compliance with the COA Circular.

6.11 Management commented that the AU is gathering all the required documentation in order to comply with the requirements under COA Circular No. 2023-008 and will resubmit the request for authority to write off once documents are complete.

6.12 Management provided Schedules of Dormant Receivables, Unliquidated Cash Advances and Intra-Agency Fund Transfers.

6.13 The Audit Team reviewed the Schedules submitted by Management and noted that the "Remarks" column, which should indicate the reasons for dormancy, was left blank. Although the Audit Team acknowledges the efforts of the AU in partially complying with the COA Circular, it is essential that the "Remarks" column be completed to ensure full compliance with the requirements of the COA Circular.

7. **The NDC has yet to decide on the final disposition of the remaining 36,839.98 square meter (sq. m.) portion of the Pandacan Property, after negotiating the sale of 13,297.97 sq. m. to Toll Regulatory Board (TRB), affected by the Right-of-Way (ROW) of the Metro Manila Skyway Stage 3 (MMSS3) Project; meanwhile, the property is underutilized.**

7.1 NDC owned a property located at Tomas Claudio St., Pandacan, Manila with an area of 50,137.95 sq. m. A portion of the subject property measuring 13,297.97 sq. m.[18], or 26.52 per cent of the total area, was affected by the ROW of the MMSS3 Project, which was completed in January 2021. As a result, the subject property was subdivided into three irregularly shaped parcels of land.

7.2 On February 12, 2018, the NDC Management recommended to its Board of Directors (BOD) the approval of the negotiated sale with the Department of Public Works and Highways (DPWH) for the latter's acquisition of a portion of the Pandacan Property. However, the NDC BOD instructed the Management to offer the entire property for sale instead, since the value of the remaining parcels of land will greatly diminish.

7.3 On March 8, 2022, TRB, as the implementing agency of the Project, sent a formal letter-offer to NDC for the acquisition of a 13,297.97 sq. m portion of the Pandacan Property at P57,000 per sq. m., based on the appraised value of the Land Bank of the Philippines.

7.4 In a meeting on March 18, 2022, the NDC BOD decided to defer the action on TRB's offer and maintain its position to sell the entire property to the Government.

7.5 On March 29, 2022, during the meeting with the principals, i.e., the Secretaries of the Department of Trade and Industry, DPWH, Department of Finance, and Department of Justice, and their respective representatives, the following matters were discussed:

a. DPWH has no objection to the acquisition of the entire property; and

b. TRB and DPWH will coordinate to facilitate the acquisition of NDC's entire property and the payment of compensation for the same.

7.6 In a Board meeting held on December 9, 2022, the NDC BOD, after deliberation, agreed to the issuance of Permit to Enter, subject to the execution of a Memorandum of Agreement (MOA) among NDC, DPWH, and TRB, which shall include:

a. Payment to NDC of just compensation of P757.984 million for the areas directly affected by the ROW (13,297.97 sq. m.); and

b. Undertaking on the part of TRB/DPWH to facilitate the acquisition of the rest of the property.

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[18] Initially, 11,109.49 sq. m of the entire property will be affected by the MMSS3 Project. Subsequently, an additional 2,188.48 sq. m. was included as a requirement for the alignment to the North Luzon Expressway-South Luzon Expressway Connector Road (NSCR) Project.

7.7 On June 11, 2024, the NDC and TRB executed a MOA, which contains the following salient provisions:

a. TRB to facilitate the payment of just compensation for the 13,297.97 sq. m. portion affected by the ROW of the MMSS3 Project;

b. All obligations of TRB to pay NDC under the MOA are due and demandable and shall be made within the period provided under the Deed of Absolute Sale (DOAS) without the need of demand;

c. Include a provision in the DOAS for the directly affected areas, granting air rights and/or right of way to NDC, its successors, and assigns, and allowing unlimited access below the Skyway structures; and

d. TRB to facilitate the negotiation for the acquisition of the remaining 36,839.98 sq. m. of the Pandacan Property, within five years from the execution of the MOA. Provided that the option to proceed with the sale shall remain exclusively with NDC. Further, TRB/Republic shall be liable in the event of failure to acquire the subject remaining portion, in accordance with existing laws.

7.8 On the same day, two DOAS were executed by NDC and TRB on the sale of 11,109.49 sq. m. and 2,188.48 sq. m. portion of the Pandacan property. Salient provisions are as follows:

a. TRB shall pay 50 per cent of the total agreed price upon the execution of the corresponding DOAS. For the DOAS on the 2,188.48 sq. m. portion, issuance of Permit to Enter by NDC to TRB is also a prerequisite for the payment of the initial 50 per cent. While the remaining 50 per cent shall be paid upon the annotation of the DOAS on the Transfer Certificates of Title (TCT) and Tax Declarations; and

b. TRB grants NDC, its successors, and assigns, perpetual air rights and/or ROW allowing unlimited access below the Skyway structures.

7.9 On June 19, 2024, the TRB paid 50 per cent of the total agreed price, in accordance with the DOAS. As of December 31, 2024, the DOAS' have yet to be annotated in the TCT and Tax Declarations, thus, the remaining 50 per cent has yet to be collected.

7.10 Relative to the pending negotiation on the remaining portion of the property, Items 1.1 and 1.2, Annex B of the DPWH Department Order (DO) No. 327[19], s. 2003, state:

"1.1 Project Affected Persons (PAPs)

Include any person or persons, household, a firm, or a private or <u>public institution</u> who, because of the need to acquire right-of-way for the implementation of an infrastructure project, will lose their land, house, and other improvements fully or partially. Xxx.

[19] Guidelines for Land Acquisition and Resettlement Action Plans (LAPRAPs) for Infrastructure Projects

1.2 Severely-affected PAPs

PAPs who will lose more than 20% of their assets because of the need to acquire right-of-way for the implementation of an infrastructure project or their remaining land or structure is no longer viable for continued use or occupancy. Those PAPs who will lose those assets will be entitled to full payment for the fair market value of the entire land and the full replacement cost of the entire structures and other improvements affected. Xxx." (underscoring supplied)

7.11 The same DO was used as legal reference in DPWH DO No. 152[20], s. 2017, or the *DPWH Right-of-Way Acquisition Manual*, to determine the compensation/entitlements package to the PAPs. NDC lost 13,297.97 or 26.52 per cent of its 50,137.95 sq. m. property because it was directly affected by the MMSS3 Project. Thus, NDC is entitled to be fully compensated for the fair market value of its entire property. NDC's right to full compensation is accorded with the purpose of the State Policy of ensuring that the owners of real property acquired for national government infrastructure projects are promptly paid just compensation.

7.12 On the other hand, as discussed in Paragraph 7.7 (d), the option to proceed with the sale of the subject remaining portion belongs to NDC. While the negotiation on the acquisition of the remaining portion by TRB is ongoing, NDC may utilize, sell, or lease the subject remaining portion. However, such activity shall not impede or obstruct the construction, maintenance, and/or operation of the MMSS3 Project.

7.13 Examination of the Highest and Best Use (HABU)[21] Study conducted by an independent appraiser, revealed that the remaining property was partitioned into three smaller and irregularly shaped parcels of land; two of which are landlocked. Consequently, access to the three parcels is limited, especially to the two landlocked parcels. The developable area, at most, is estimated at only 60 per cent[22] of the total remaining area. Thus, the development of the remaining property is likely difficult. The appraiser concluded that the HABU of the property is for mixed-use, middle-cost residential development with an expected payback period of 12 years.

7.14 Meanwhile, Management disclosed that the MMSS3 contractor requested access to NDC's property to conduct soil testing and boring for their study on whether a ramp connecting to the MMSS3 would be feasible. In such a case, a portion of the remaining property will also be affected by the ROW.

7.15 It is Management's prerogative to determine the suitable disposition of the remaining portion of the Pandacan Property. However, pending the determination of Management's plan, the property is underutilized.

7.16 Additionally, the Audit Team mentioned in prior years' the presence of unauthorized occupation by former NDC lessees, who are also the contractors/concessionaires of MMSS3. Inquiry with Management disclosed that the NDC reconsidered its position

[20] Reissuance of Department Order No. 124, s. 2017, Directing the Use of the DPWH Right-of-Way Acquisition Manual by All Concerned
[21] HABU Study dated July 18, 2023
[22] The appraiser also stated that a more conservative planners may estimate less at 40 to 50 per cent of the remaining area

and did not pursue compensation for occupying the property. Accordingly, the property is vacant and without unauthorized occupation as of December 31, 2024.

7.17 We recommended that Management:

a. Apprise the Audit Team on the status of annotation of DOAS in the TCT and provide documentation thereof. Once annotated, demand payment of the remaining 50 per cent from TRB;

b. Facilitate the negotiation with TRB for the acquisition of the remaining portion of the Pandacan Property, in accordance with the MOA and the DPWH Department Orders. Meanwhile, study available options for NDC to maximize the utilization of the subject property; and

c. Provide justification for Management's decision to reconsider the demand for compensation on the unauthorized use/occupation by the former NDC lessee.

7.18 On the disposition of the remaining property, Management commented that the statement that "NDC has yet to decide on the final disposition" of the remaining area is inaccurate and not supported by the existing facts. The Memorandum of Agreement (MOA) executed between NDC and TRB explicitly provides for a five-year period, beginning June 19, 2024, within which the parties are to undertake negotiations for the acquisition of the remaining area. This binding provision reflects an agreed-upon course of action and timeline, contrary to the assertion that NDC has not made a decision regarding the property's disposition. The Commission on Audit's observation overlooks this critical and legally binding commitment.

7.19 On the alleged underutilization of the property, Management commented that the claim that the property is "underutilized" does not take into account the actual conditions on the ground. In addition to the ongoing construction works on the property, the subject property has been fragmented into three irregularly shaped parcels due to the Skyway alignment and construction activities.

7.20 Despite these significant limitations, Management successfully entered into a lease agreement in 2023 for a portion of the property (approximately 14,000 sq. m.), generating annual income of P26 million, net of taxes and with escalation provisions.

7.21 Management has taken prudent and proactive steps to derive economic value from the remaining portions of the property, within the constraints imposed by the infrastructure development. While full utilization of every square inch is ideal, such an expectation must be tempered with practicality and a realistic understanding of prevailing site conditions.

7.22 Management also commented that the annotations of the DOAS have already been recorded in TCT No. 121218 by the Registry of Deeds Manila on November 20, 2024. Accordingly, the TRB, in its letter dated March 26, 2025, has already requested its concessionaire, SMC Skyway Stage 3 Corporation for the immediate payment to NDC of the remaining 50 per cent of the compensation price of the 13,297.97 sq. m. portions of the Pandacan property which was directly affected by the ROW of the MMSS3

Project in the total amount of P424.470 million, inclusive of value added tax. A copy of the said TRB letter, together with the photocopy of TCT No. 121218 reflecting the annotation of the DOAS between NDC and TRB, was submitted to the Audit Team.

7.23 The timeline for the negotiation for the acquisition of the 36,839.98 sq. m. remaining portion of the Pandacan property is within five years from June 19, 2024, when the MOA was executed. The negotiation has yet to commence, pending NDC's receipt of the full payment for the affected areas of the MMSS3 Project ROW.

7.24 In addition, and as stated in the MOA, TRB needs to undertake the necessary actions for the negotiation, as follows: a) Revision of the approved parcellary plans; b) Approval of the inclusion of the cost of acquisition of the entire NDC property in the Project cost; and c) Secure the necessary approvals for the acquisition and payment of the just compensation for the subject remaining portion. Those actions would take a considerable amount of time, which justifies the five-year negotiation period under the agreement.

7.25 Prior to the execution of the DOAS, Management, on several occasions, has demanded TRB/SMC's payment of rentals for the unauthorized occupation of its subcontractors on the Pandacan property. However, the TRB/SMC clarified that the occupation of the contractors is only within the footprints of the Skyway project, which is the subject of the acquisition by the Government/TRB. In addition, the occupation of subcontractors within the footprints of the skyway for a limited period is necessary for the continuous and efficient completion of the MMSS3 Project, a government initiative project.

7.26 Further, Management was able to compel one of SMC's subcontractors who occupied a portion of the Pandacan Property, Dumduma Construction and Trading Corporation, to pay lease rentals.

7.27 In view of the foregoing, the Audit Team would like to clarify that Management's contention regarding the legally binding agreement between NDC and TRB, as stated in the MOA, was not overlooked. In fact, the same provision was explicitly stated in Paragraph 7.7 (d) and discussed in Paragraph 7.12. Clearly, the Audit Team noted that the NDC and TRB will engage in further negotiations for the acquisition of the remaining area.

7.28 Relative thereto, Item B.1 of the MOA provides that:

> *"B. For the remaining portion (36,839.98 sq.m.):*
>
> *1. **Facilitate the negotiation for the acquisition of the subject remaining portion** of the NDC Property within five (5) years from the execution of this Agreement based on existing laws and guidelines on ROW Acquisition. Xxx.*
> *(a to c) Xxx.*
>
> *Provided, that the **option to proceed with the sale of the subject remaining portion shall remain exclusively with NDC as the owner**.*

Provided further, that in the event of failure to acquire the subject remaining portion of the NDC Property, the TRB/Republic shall be liable in accordance with existing laws. Provided further, that ***this shall not prejudice the right of NDC to negotiate with the TRB and/or the Republic of the Philippines, or a third party for the use, sale, lease or encumbrance of the subject remaining portion of the NDC Property****, but such use, sale, lease, or encumbrance should not cause impediment or obstruction to the construction, maintenance, and/or operation of the Project. Provided finally,* ***that the TRB and/or the Republic of the Philippines shall grant NDC, its successors, and assigns, perpetual air rights and/or right of way allowing unlimited access below the Skyway structures.****"* (emphasis supplied)

7.29 Based on the provision, and as discussed in Paragraph 7.12, while the sale of the subject remaining portion is still under negotiation between NDC and TRB, the former has an exclusive option to proceed with such sale and without prejudice to its rights to use, sell, lease, or encumber the property. Hence, NDC has the flexibility to determine the utilization and/or final disposition of the property.

7.30 Further, another legal option was cited in Paragraphs 7.10 and 7.11. Under the Department of Public Works and Highways Department Order Nos. 327 and 152, NDC has the right to full compensation.

7.31 While the Audit Team was previously apprised that the standing directive of the NDC BOD was to sell the entire property, which was stated in prior years' Audit Observation Memoranda, with the recent changes in the NDC administration, the Audit Team cannot simply assume the matters at hand. Instead, the Audit Team is exercising prudence in confirming and verifying with Management, NDC's direction on the disposition of the remaining portion of the Pandacan Property.

7.32 Determination of its final disposition is also a relevant information that needs proper disclosure in the Notes to Financial Statements. Per Notes to Financial Statements initially submitted to the Audit Team, the Pandacan Property is categorized under Investment Property with Lease. Nothing therein provides that the remaining portion of the Pandacan Property is subject of a sale negotiation. Absence of such information may lead users of financial statements to assume that, the entire 3.68 hectares (has.) is for lease. The timeliness and completeness of information, including qualitative information, is essential for decision makers.

7.33 Also, the Audit Team maintains its position that the property is underutilized, even after considering that a portion of the property has an existing lease contract for the 1.38 has, or 37.50 per cent, of the 3.68 has. of the remaining Pandacan Property. In this regard, 62.50 per cent has yet to be utilized to maximize the economic benefit of the subject property. Nonetheless, we acknowledged Management's efforts in generating income from the subject property.

7.34 Additionally, the Audit Team is aware of the condition of the Pandacan Property, as explicitly discussed in Paragraph 7.13, wherein the HABU was referenced in its estimate that at most, only 60 per cent is developable.

7.35 Ultimately, Management has the prerogative and discretion on how to maximize the economic benefit to be derived from the utilization of the subject property, e.g., sale, lease, or project development. Hence, the Audit Team's recommendation was for Management to study available options to maximize the utilization of the subject property.

7.36 In a news website dated April 30, 2025, and as confirmed by the Asset Management Group (AMG) personnel through phone call inquiry on May 15, 2025 and during NDC Exit Conference held on May 22, 2025, the NDC received the final 50 per cent payment from TRB on the sale of portion of the Pandacan Property.

8. Several investment properties are either idle/vacant or occupied by illegal occupants, depriving NDC of potential income, while incurring Real Property Taxes (RPT), Security Services, and Repairs and Maintenance expenses, aggregating P36.028 million in CY 2024, contrary to Section 2 (b) of Republic Act (RA) No. 10149[23], resulting in the underutilization of NDC properties.

8.1 This is a reiteration of the prior year's audit observation with updated information.

8.2 Section 2 (b) of RA No. 10149 or the GOCC Governance Act of 2011, provides:

> *"Section 2. Declaration of Policy.—The State recognizes the potential of government-owned or controlled corporations (GOCCs) as significant tools for economic development. It is thus the policy of the State to actively exercise its ownership rights in GOCCs and **to promote growth by ensuring that operations are consistent with national development policies and programs**.*
>
> *Towards this end, the State shall ensure that:*
>
> *Xxx*
>
> *(b) The operations of GOCCs are rationalized and monitored centrally in order that **government assets and resources are used efficiently and the government exposure to all forms of liabilities including subsidies is warranted and incurred through prudent means**;*
>
> *Xxx"* (emphasis supplied)

8.3 NDC's Investment Property account consists of 53 parcels of land, three buildings, one condominium unit, and two residential houses located in various cities and municipalities across the country. These properties are held to earn rentals under operating leases, capital appreciation, and project development.

[23] An Act to Promote Financial Viability and Fiscal Discipline in Government-Owned or -Controlled Corporations and to Strengthen the Role of the State in its Governance Management to Make Them More Responsive to the Needs of Public Interest and for Other Purposes

8.4 Of the 53 parcels of land with an aggregate area of 32,222,036.79 sq. m[24], 17 were leased to various lessees, while the remaining 36 properties[25] were either idle/vacant and/or occupied by illegal settlers, subject to a pending case in court or before investigative authorities, or not yet titled under NDC's name.

8.5 Based on available documents and records, the status of the 36 properties for the years ended December 31, 2023, and 2024 is discussed in Table 11:

Table 11 – Comparative Status of Properties

	Property	Notes to FS (Presentation)	Status in CY 2023[26]	Status in CY 2024[27]
1	CBP Macapagal Ave. Pasay City	Macapagal Blvd., Pasay City	For lease or project development	Marketed for lease or project development
2	Sucat, Muntinlupa City	Sucat, Muntinlupa	Residential townhouse under Joint Venture (JV)	Residential townhouse under JV; Under litigation
3	Dasmariñas, Cavite (Langkaan - Humayao)	Dasmariñas, Cavite	Ongoing development as industrial estate	Ongoing development as industrial estate
	Dasmariñas, Cavite (Langkaan II - Dualtech)		Proposed site for a certain Project but did not materialize	Proposed site for a certain Project but did not materialize
4	Barangay Daliao, Toril, Davao City	Toril, Davao City	For project development; Five has. portion of 24.96 has. is under Usufruct with Local Government Unit (LGU); 19.96 has. is underutilized	For project development; 5-has. portion is under Memorandum of Agreement with LGU
5	San. Juan St. Barangay 3, Bacolod City	San Juan St. Bacolod City	Marketed for lease or project development	For disposition through public bidding, on an as is where-is basis
6	North Ave., Quezon City	Diliman, Quezon City	Under lease until December 14, 2023	Marketed for lease or project development
7	Angel Linao Street, Malate Manila	Sa Andres & E. Quirino Ave., Manila	Marketed for lease or project development	Marketed for lease or project development
8	San Dionisio, Paranaque City	San Dionisio, Paranaque	Under litigation; For titling in NDC's name	Under litigation; For titling in NDC's name
9	Bo. San Pedro Hermosa, Bataan	Hermosa, Bataan	Submitted to Department of Human Settlements and Urban Development (DHSUD) for the Pambansang Pabahay Para sa Pilipino Program	Submitted to DHSUD for the 4PH Program

[24] Per Notes to Financial Statements initially submitted by Management
[25] Classified as Investment Properties without lease in the Notes to Financial Statements
[26] Includes data from inspection of several properties in CY 2023. To differentiate (for emphasis), results of inspection are *italicized*.
[27] Includes data from Agency Action Plan and Status of Implementation (AAPSI) submitted by Management as of December 31, 2024 and results of inquiry. For ease of reference, updates are underlined.

	Property	Notes to FS (Presentation)	Status in CY 2023[26]	Status in CY 2024[27]
			(4PH); Actual use of property is residential; Illegal occupants are willing to acquire the occupied area; *Had a small number of concrete houses belonging to informal settlers, while a large portion of the property is still vacant*	
10	Meycauyan, Bulacan	Meycauayan, Bulacan	Marketed for lease or project development	Marketed for lease or project development
11	Sta. Fe, Bantayan, Cebu	Sta. Fe, Bantayan, Cebu	Not declared as alienable and disposable; Covered by Presidential Proclamation (PP) No. 2151; Marketed for lease or project development	Not declared as alienable and disposable; Covered by PP No. 2151; Ongoing negotiations for the lease of the property
12	San Francisco Del Monte Quezon City	San Francisco Del Monte, Quezon City	For reconstitution of the title	For reconstitution of title; For Community Mortgage Program (CMP); Petition for reconstitution of title granted by the Court; Certificate of Finality by Regional Trial Court on March 1, 2024
13	Bo. San Juan & Sto Nino Pampanga	Bo. San Juan & Sto. Nino Pampanga	Marketed for lease or project development	Marketed for lease or project development
14	Sambag District, Cebu City	Sambag, Cebu	With informal settlers; Ongoing conduct of the qualitative study of the property, whether to retain or dispose of the property	For disposition through public bidding, on an as-is, where-is basis; With pending negotiation for the lease of property
15	Campo Islam, Baliwasan, Zamboanga City	Baliwasan, Zamboanga City	Marketed for lease or project development	For disposition through public bidding, on an as is, where-is basis
16	Los Baños, Laguna	Los Baños, Laguna	With informal settlers, Subject of PP No. 550	With informal settlers, Subject of PP No. 550; Inquiry with Management disclosed that the Municipal Urban Development and Housing Board (MUDHB)-Local Inter-Agency Committee's (LIAC) verification and validation of NDC's title is still ongoing. If NDC's title is found to be valid, exclusion of the NDC property from the PP will be processed.
17	Bo-Alas-Asin Mariveles Bataan	Bo. Bia-an, Mariveles, Bataan	For acquisition by the Department of Public Works and Highways (DPWH) as right-of-way for Bataan-Cavite Bridge Project; Awaiting Notice from DPWH of the result of the parcellary survey	About 500 sq. m. portion for acquisition by the DPWH as right-of-way for Bataan-Cavite Bridge Project; DPWH issued Notice of Taking dated September 10, 2024; The AMG is still awaiting the subdivision/survey plan from DPWH to verify if the NDC property is affected by the project.

	Property	Notes to FS (Presentation)	Status in CY 2023[26]	Status in CY 2024[27]
	Bo Batangas II Mariveles (Lot 1)		Submitted to DHSUD for the 4PH Program	Submitted to DHSUD for the 4PH Program
	(Lot 2)		Submitted to DHSUD for the 4PH Program	Submitted to DHSUD for the 4PH Program
	(Lot 3)		Submitted to DHSUD for the 4PH Program; *Lot 3 was considered by a school administration as a site for possible school expansion since the subject lot is adjacent thereof*	Submitted to DHSUD for the 4PH Program; <u>Still awaiting a response to NDC's proposal from the concerned LGU and the school administration.</u>
18	Bo. Dao, Tagbilaran City, Bohol	Dao, Tagbilaran, Bohol	Submitted to DHSUD for the 4PH Program	Submitted to DHSUD for the 4PH Program
19	Bo. Dolores, San Fernando, Pampanga	San Fernando, Pampanga	No other development except as residential	No other development except as residential; For CMP
	Fernandino Subd., San Nicolas, San Fernando, Pampanga		No other development except as residential; *it has a small number of concrete houses belonging to informal settlers, while a portion of the property is vacant, and is being used as an easement or as a parking lot.*	No other development except as residential; For CMP
	San Felipe, San Fernando, Pampanga		Residential lot; With organized informal settlers for CMP Process, however, it was stalled due to the absence of a qualified mobilizer in the area to handle the CMP Process; *Has two-story concrete houses belonging to informal settlers*	Residential lot; With organized informal settlers for the CMP Process, however, it was stalled due to the absence of a qualified mobilizer in the area to handle the CMP Process
	Aurea Subd., San Nicolas San Fernando, Pampanga		No other development except as residential; *Vacant grassy lot in a residential area where encroachment is possible*	For disposition through public bidding, on an as-is, where-is basis; No other development except as residential
20	Langihan District, Butuan City	Bo. Langihan, Butuan City	Submitted to DHSUD for the 4PH Program	Submitted to DHSUD for the 4PH Program
21	Poblacion, Parang, Cotabato City	Poblacion, Parang, Cotabato	Submitted to DHSUD for the 4PH Program	Submitted to DHSUD for the 4PH Program
22	Barangay Puerto, Cagayan de Oro City	Puerto, Cagayan de Oro City	For titling in NDC's name, With organized informal settlers, For CMP	For titling in NDC's name, With organized informal settlers, For CMP
23	National Highway, Barangay Tagapo, Sta. Rosa, Laguna	Sta. Rosa, Laguna	For negotiation for the lease of a portion of the property	For negotiation for the lease of a portion of the property, A portion of the said property was being occupied by a convenience store. <u>Inquiry with Management disclosed that the lease</u>

	Property	Notes to FS (Presentation)	Status in CY 2023[26]	Status in CY 2024[27]
				negotiation for the affected portion was stalled due to the death of the owner of the property where the convenience store is leasing. Subsequent negotiation with the heir and his/her legal counsel is ongoing, but Management has yet to receive any update from the former.
24	Brgy. Suyong, Echague Isabela	Suyong, Echague, Isabela	Submitted to DHSUD for the 4PH Program	Submitted to DHSUD for the 4PH Program
25	Bongabon, Nueva Ecija	Bongabon, Nueva Ecija	Submitted to DHSUD for the 4PH Program	Submitted to DHSUD for the 4PH Program
26	Bonot, Legaspi City	Bonot, Legazpi City	For transfer of title to NDC, For disposal	For disposition through public bidding, on an as is, where-is basis
27	Barangay Macasandig, Cagayan de Oro City	Cagayan de Oro City	Vacant residential lot; No other development except as residential; Ongoing conduct of the qualitative study of the property whether to retain or dispose of the property	For disposition through public bidding, on an as-is, where-is basis; Vacant residential lot; No other development except as residential
28	San Roque, Antipolo City	San Roque, Antipolo City	NDC foreclosed property	For disposition through public bidding, on an as is where-is basis
29	Calatagan, Batangas	Calatagan, Batangas	With informal settlers; For transfer of title to NDC; Ongoing titling process	With informal settlers; For transfer of title to NDC; Ongoing titling process
30	Sitio Maraming Daan, Bo. Pantay Tanay, Rizal	Tanay, Rizal	Agricultural lot; For relocation survey in 2024; Ongoing conduct of the qualitative study of the property whether to retain or dispose of the property	Submitted to DHSUD for the 4PH Program; For relocation survey in 2025
31	Bo Bia-an Mariveles, Bataan	Mariveles, Bataan	Submitted to DHSUD for the 4PH Program; *Allegedly, the subject property is possibly located within the Ancestral Domain/Lands or area generally belonging to Indigenous Cultural Communities (ICCs)/ Indigenous Peoples (IPs), thus, may be included in the National Integrated Protected Areas System*	Submitted to DHSUD for the 4PH Program; The AMG will formally make representation with the National Commission on Indigenous Peoples (NCIP) - Regional Office III in San Fernando, Pampanga to seek confirmation from the NCIP on whether the subject property falls within Ancestral Domains or lands recognized by ICCs/IPs.
32	Everly Hills, Bo,San Isidro, Antipolo City Garland Subd., Bo, San Isidro, Antipolo City	San Isidro, Antipolo City	Submitted to DHSUD for the 4PH Program; For relocation survey in 2025 Located in the mountainous part of Antipolo, it is not accessible	For disposition through public bidding, on an as is where-is basis; Submitted to DHSUD for the 4PH Program For disposition through public bidding, on an as-is, where-is basis; located in the mountainous part of Antipolo; Not accessible

	Property	Notes to FS (Presentation)	Status in CY 2023[26]	Status in CY 2024[27]
33	Joyous Heights, San Jose, Antipolo City	San Jose, Antipolo City	With Board approval of sale through CMP; Ongoing CMP Process	With Board approval of sale through CMP; Ongoing CMP Process
34	Talakag, Bukidnon	Talakag, Bukidnon	Ongoing transfer of title to NDC	Ongoing transfer of title to NDC
35	Pueblocillo Village, Dasmariñas, Cavite	Pueblocillo Village, Dasmarinas Cavite	Residential lot previously owned by a former NDC employee; NDC foreclosed the property for failure to settle the obligations. *There were residents in the property, and the village guard also confirmed this*	For disposition through public bidding, on an as-is, where-is basis
36	Porac, Pampanga	Porac, Pampanga	Submitted to DHSUD for the 4PH Program	Submitted to DHSUD for the 4PH Program

8.6 To promote and advertise idle/vacant properties, attracting prospective lessees and/or buyers, Management installed tarpaulins on prime idle/vacant properties such as those in Macapagal, Pasay, and Angel Linao, Malate, Manila. Also, AMG subscribed to a real estate platform to advertise NDC properties online for a wider reach.

8.7 With regard to properties submitted to DHSUD, Management stated that they had inquired about the progress and status of the 4PH program's implementation. AMG also queried with DHSUD regarding the NDC's potential interim use of the properties for income-generating activities, pending the expropriation and/or transfer of ownership of NDC properties to DHSUD.

8.8 In view of the foregoing, the state recognizes GOCCs as a significant tool for economic development. Thus, it established the Governance Commission for GOCCs to promote the growth of GOCCs and to ensure that the operations are consistent with national development policies and programs. Also, it ensures that government assets and resources are used efficiently.

8.9 Thus, with the 36 idle/vacant investment properties of NDC and fixed expenses aggregating P36.028 million in the form of RPT, Security Services, and repairs and Maintenance expenses necessarily incurred, Management must utilize these assets and resources efficiently to achieve full earning capacity and contribute to the country's economic development.

8.10 **We reiterated our previous year's recommendation that Management continue its efforts to promote and advertise all idle/vacant properties to attract prospective lessees and/or buyers. Study other options available to NDC for the best and productive use of the properties.**

8.11 **Further, we reiterated the prior year's recommendations, with modification, as follows:**

a. **Determine whether Brgy. Biaan, Mariveles, Bataan Property is within the Ancestral Domain/Lands or belonging to ICCs/IPs;**

b. **Furnish the Audit Team a copy of DPWH's Notice of Taking on the portion of Brgy. Alas-asin, Mariveles, Bataan, that will be affected by the Bataan-Cavite Project, and subdivision/survey plan, if available;**

c. **Coordinate with the LGU and the school administration to determine whether Lot 3 can still be pursued for possible school expansion with reference to the Brgy. Batangas II, Mariveles, Bataan properties;**

d. **Consider pursuing legal action against informal settlers/occupants of various vacant properties. Otherwise, collect compensation therefrom;**

8.12 **Additionally, we recommended that Management apprise the Audit Team of the status of actions taken on the following investment properties and provide supporting documents, if any:**

e. **On the coordination with MUDHB-LIAC for the verification and validation of NDC's title over the Los Baños, Laguna property;**

f. **On the coordination with the heir and/or his/her legal counsel for the lease negotiation on the affected portion of Sta. Rosa, Laguna Property; and**

g. **On the result of the query with DHSUD, whether Management's intention to use NDC properties eyed for 4PH Program for income-generating activities is allowed, pending the expropriation and/or transfer of ownership of NDC properties to DHSUD.**

8.13 Management commented that they will continue to promote and advertise the properties for lease and will utilize the online real estate platforms as new avenues to attract prospective lessees. Likewise, Management has identified several properties for disposition, which, based on evaluation, shall contribute to the NDC's income maximization and overall strategic goals.

8.14 On recommendation **a,** Management commented that they will coordinate with the National Commission on Indigenous Peoples Regional Office, the Department of Environment and Natural Resources, and other concerned agencies to secure a formal confirmation whether the subject property forms part of the territory traditionally occupied by indigenous cultural communities/indigenous peoples, or falls within any unrecognized ancestral domain.

8.15 On recommendation **b**, Management submitted a copy of the requested documents, including the corresponding superimposed plan showing the portions of the subject properties affected by the Bataan-Cavite Interlink Bridge Project.

8.16 On recommendation **c,** Management commented that a formal response from the concerned LGU and the school administration has not yet been received. In the meantime, Management continues to consider options to optimize the utilization of the subject property, pending the transfer to DHSUD for the government's 4PH Program.

8.17 On recommendation **d,** Management has transmitted to the Legal Department the list of properties with informal settlers or occupants, for appropriate legal action.

8.18 On recommendation **e,** Management commented that they are still awaiting the decision of the MUDHB-LIAC regarding the verification and validation of NDC's title over the subject property. In the meantime, Management will continue to coordinate with MUDHB-LIAC and provide the Audit Team with an update as soon as a final determination has been made.

8.19 On recommendation **f**, Management commented that they are still waiting for an update identifying the legal heir/s, authorized legal counsel, or duly designated representative with whom lease negotiations may be conducted. Nevertheless, Management shall continue to exert all necessary efforts to safeguard and advance the best interests of the NDC on this matter.

8.20 On recommendation **g**, Management has yet to receive a formal response from DHSUD. In the meantime, Management shall take appropriate actions to optimize the use or consider actions to optimize the use or consider the disposal of the subject properties submitted under the 4PH Program, in order to promote the best interest of NDC.

8.21 The Audit Team will continue to monitor Management's subsequent actions on the recommendations.

9. Seven investment properties of NDC amounting to P245.096 million with an aggregate area of 19,146 square meters (sq. m.), remained unregistered despite the lapse of four decades, exposing government assets to legal risks and/or loss of the actual property.

9.1 This is a reiteration of the prior year's audit observation with updated information.

9.2 Review of NDC Register of Lands and Status Report of International Corporate Bank (ICB) Acquired Land Assets showed that NDC has seven investment properties that are not yet titled under its name. Based on available documents, a summary and details on the status of each property are discussed hereunder:

Table 12 - List of Untitled Properties

Property	Date of Acquisition	Mode of Acquisition	Area (in sq. m.)	Fair Market Value in 2024
San Dionisio, Parañaque City	September 16, 1983	Assigned asset – ICB	1,426	99,392,000
Meycuayan, Bulacan	July 17, 1984	Property Dividend - Crowntex Realty Corp. (CRC)	5,231	71,665,000
San Francisco Del Monte Quezon City	September 16, 1983	Assigned Asset - ICB	623	34,800,000
Langihan District, Butuan City	May 22, 1975	Donation - Mobil Oil Philippines, Inc. (MOPI)	6,933	22,348,000
Brgy. Puerto, Cagayan de Oro City	December 18, 1976	Donation - Philippine Packing Corporation (PPC)	3,352	13,073,000

Property	Date of Acquisition	Mode of Acquisition	Area (in sq. m.)	Fair Market Value in 2024
Calatagan, Batangas	September 16, 1983	Assigned Asset - ICB	1,131	2,828,000
Talakag, Bukidnon	September 16, 1983	Assigned Asset - ICB	450	990,000
Total			**19,146**	**245,096,000**

9.3 *San Dionicio, Parañaque City Property*. The property consists of four contiguous lots with an aggregate area of 1,426 sq. m and covered by four Transfer of Certificates of Title (TCTs), all issued in favor of Asia Pacific Finance Corporation. Meanwhile, NDC acquired the subject property from ICB pursuant to the Deed of Assignment dated September 16, 1983. Per ocular inspection conducted by the inspectorate team in CY 2022, composed of NDC and Commission on Audit representatives, there is a three-story commercial building and a three-unit townhouse on the subject property.

9.4 Per Note 16 to the Financial Statements, said property has a pending case of unlawful detainer filed by the ICB against Marita M. Alegre et al. Management considered the possible revival of the case; however, records of the case are no longer available in the archives of the Metropolitan Trial Court of Parañaque Branch 78 because these were destroyed/damaged due to water exposure.

9.5 Meanwhile, records from Tax Mapping show that the subject property is currently registered under the name Alegres to Ms. Tee.

9.6 *Meycauayan, Bulacan Property*. The subject property is a parcel of land with an area of 5,231 sq. m. and covered by a TCT registered to CRC. NDC acquired the subject property through a property dividend from CRC on July 17, 1984.

9.7 *San Francisco Del Monte, Quezon City Property*. The subject property is a parcel of land with an area of 623 sq. m. and covered by a TCT registered under the name of Marcos Chua. NDC acquired the subject property from ICB pursuant to a Deed of Assignment dated September 16, 1983. Based on the Register of Lands as of December 31, 2023, the property has informal settlers.

9.8 NDC requested reconstitution of the title since the Registry of Deeds (RD) – Quezon City was razed by fire in 1988, and the original title was presumed to have been destroyed. The Certificate of Finality of Judgment by the Regional Trial Court (RTC), Branch 14, Quezon City, was issued on March 1, 2024, granting the Petition of NDC for the Reconstitution of the original TCT No. 69615.

9.9 Management requested certified copies of documents from the RTC for submission to the RD, Quezon City. Upon submission of documents, the RD shall correspondingly issue the reconstituted title upon payment of assessed registration fees. Thereafter, Management will process the transfer of the TCT to NDC's name.

9.10 *Langihan District, Butuan City Property*. The subject property is a parcel of land with an area of 6,933 sq.m. and covered only by a Tax Declaration under NDC’s name. NDC acquired the subject property through donation from MOPI on May 22, 1975.

9.11 Management is currently consolidating all the required documents for filing a Petition for Original Land Registration.

9.12 *Brgy. Puerto, Cagayan de Oro City Property*. The subject property is a parcel of land with an area of 3,352 sq. m. and covered only by a Tax Declaration under NDC's name. NDC acquired the subject property through donation from PPC on December 18, 1976.

9.13 Management is currently consolidating all the required documents for filing a Petition for Original Land Registration. Further, based on the Register of Lands, the property has informal settlers.

9.14 *Calatagan, Batangas Property*. The subject property consists of two adjoining lots with an aggregate area of 1,131 sq. m. and covered by two TCTs registered under the name of Willen Kho. NDC acquired the subject property from ICB pursuant to a Deed of Assignment dated September 16, 1983. Based on the Register of Lands, the property has informal settlers.

9.15 The processing of the transfer of title was stalled due to the unavailability/absence of supporting documents required by the BIR for the issuance of the Certificate Authorizing Registration, i.e., no records on file of the 1984 Tax Declarations at the Municipal and Provincial Assessor's Office, and lack of appropriate transfer documentation from Willen Kho to ICB, among others.

9.16 *Talakag, Bukidnon Property*. The subject property is a parcel of land with an area of 450 sq. m. and covered by a TCT registered under the name of ICB. NDC acquired the subject property from ICB pursuant to a Deed of Assignment dated September 16, 1983.

9.17 There was no significant development that took place in CY 2024 for the above-mentioned properties. The titling process of most of these assets is still ongoing despite acquiring them several decades ago. Further, aside from the Deeds of Assignment, the documents held by NDC are still in the name of the previous/original owners. Thus, the subject properties are exposed to legal risks such as land disputes, third-party claims, and the proliferation of more informal settlers, which may eventually lead to loss of the actual property.

9.18 The same audit observation has been raised in prior year's audits, and the Audit Team continuously recommended that Management take appropriate action to expedite the titling of these subject properties. During CY 2024, Management successfully registered the Bonot, Legazpi City property under the name of NDC, evidenced by two TCTs dated July 10, 2024. The Audit Team acknowledges the efforts of Management in pursuing the titling of NDC properties under its name, securing NDC's rights and ownership over the said properties.

9.19 **We reiterated our previous year's recommendations that Management:**

a. **Continuously exert utmost effort to expedite the titling of lands under NDC's name; and**

b. **Apprise the Audit Team of updates in the titling of each untitled investment property. Provide supporting documents, as the case may be.**

9.20 Management commented that most of the assets included in the Audit Observation, especially those assigned assets of the ICB, have complications. As a supplemental measure of protection and to ensure that third parties are made aware of NDC's rights and claims over the properties, Management annotated the pertinent instruments evidencing NDC's rights over the ICB assigned properties with the Registry of Deeds.

9.21 Furthermore, Management remained dedicated to the efficient and expeditious resolution of the matter and will update the Audit Team on the progress of the titling process for each untitled investment property.

9.22 The Audit Team requested that Management provide a copy of the annotated registration of the instrument showing NDC's rights over the untitled properties. Likewise, the Audit Team will monitor Management's subsequent actions on the recommendations.

10. The preliminary design and construction studies were not sufficiently carried out in the procurement of Design and Build of the NDC Green Industrial Sustainable Ecozone (NGIE) Project with an Approved Budget for the Contract (ABC) amounting to P230.108 million, contrary to Item 7 of Annex G of the Revised Implementing Rules and Regulation (RIRR) of Republic Act (RA) No. 9184[28].

10.1 In December 2000, the NDC Board of Directors (BOD) approved the development of NDC's 19.2-hectare land in Barangay Langkaan, Dasmariñas City, Cavite as an expansion of the First Cavite Industrial Estate (FCIE) located adjacent to the property. However, the public bidding for the joint venture development did not materialize.

10.2 In October 2008, the NDC BOD approved the disposal of the property. However, the public bidding for its disposal in 2009 and 2010 resulted in the failure of the bidding.

10.3 In 2013, the NDC BOD approved the development of the property as a special economic zone to be developed by FCIE, Inc.[29]. Subsequently, Management hired a consultant for the Design and Detailed Engineering.

10.4 In 2022, the Site Development Works for the NDC Industrial Estate (NDCIE)[30] project with an approved budget of P190.375 million was awarded to a certain construction corporation through public bidding in the amount of P171.737 million. The contract period is 540 calendar days commencing upon receipt of Notice to Proceed by the contractor on February 16, 2022, and ending on August 9, 2023.

10.5 The Project covers supply of labor, equipment and materials for the construction of site development works – site grading, road works, drainage system, water supply and fire protection system, sewer lines, sanitary treatment plant, generator set,

[28] Updated as of July 19, 2024
[29] On May 19, 2014, the NDC BOD approved the application for registration of the development of the property with NDC as the developer.
[30] To provide proper distinction and consistency for this Observation, the project with an approved budget of P190.375 million will be referred to as NDCIE, while the project with an approved budget of P230.108 million will be referred to as NGIE.

administration complex, perimeter fence, slope protection and landscape and greening, among others.

10.6 The term of the contract was extended twice due to various issues. On August 23, 2023, due to soil erosion, the NDC suspended indefinitely all works related to the water system and other affected areas, which may jeopardize the safety of workers, equipment, and structures, including the construction of the Administration Building.

10.7 On February 15, 2024, the Assistant General Manager (AGM) of Business Development Group (BDG) presented to the NDC BOD the planned second phase[31] of the NDCIE. The NDCIE is redesigned and envisioned to be the NGIE. The Board approved the budget for the latter amounting to P230.108 million.

10.8 Per inquiry with NDC personnel, all site development works were effectively suspended on July 15, 2024, when the AGM of BDG, issued Office Order No. 79, Series of 2024, instructing all service providers to secure approval from his office regarding the ingress or egress of all personnel, the movement of equipment and construction materials, and the conduct of any related activities therein.

10.9 On August 29, 2024, Proclamation No. 677 was issued by the Office of the President of the Republic of the Philippines creating and designating NDC's 19.2-hectare land as a Special Economic Zone, to be known as NDCIE.

10.10 On September 30, 2024, the BDG requested the Bids and Award Committee (BAC) to commence the procurement process of the NGIE Project through an Inter-Office Memorandum and submitted the following documents to provide a comprehensive account of the pertinent records and information required for the bidding process: (a) NDC Board Resolution; (b) Materials Requisition; (c) Updated Market Research; and (d) Terms of Reference.

10.11 After the Pre-Procurement Conference, Advertisement and Posting, and Pre-Bid Conference, two out of the six prospective bidders were declared eligible, during the opening of eligibility documents and technical and financial proposals on December 11, 2024. The bid evaluation and post-qualification of the two eligible bidders are ongoing.

10.12 As of December 31, 2024, completed works for the NDCIE are 76.17 per cent with a total incurred cost of P141.568 million.

10.13 Analysis of the preceding events disclosed that the documents provided in the bidding documents to be used for the design and build proposal and services for the NGIE were insufficient. The required preliminary design and construction studies were not sufficiently carried out, which is not in conformity with RA No. 9184.

[31] Term used in NDC Board Resolution No. 24-02-02

10.14 Item 7 of Annex G – Detailed Engineering Requirements of the 2016 RIRR of RA No. 9184 states that:

"7) Preliminary Design and Construction Studies

No bidding and award of design and build contracts shall be made unless the required preliminary design and construction studies have been sufficiently carried out and duly approved by the Head of the Procuring Entity that shall include, among others, the following:

i. Project Description
ii. Conceptual Deign
iii. Performance Specifications and Parameters
iv. Preliminary Survey and Mapping
v. Preliminary Investigations
vi. Utility Locations
vii. Approved Budget for the Contract
viii. Proposed Design and Construction Schedule
ix. Minimum requirements for a Construction Safety and Health Program for the project being considered
x. Tender/Bidding Documents, including Instructions to Bidders and Conditions of Contract

The above data are for reference only. The procuring entity does not guarantee that these data are fully correct, up to date, and applicable to the project at hand. The contractor is responsible for the accuracy and applicability of all data, including the above, that it will use in its design and build proposal and services."

10.15 Moreover, Item 8.1 and 8.2 of Annex G – Detailed Engineering Requirements of the 2016 RIRR of RA No. 9184, state that:

"8.1 Upon award of the design and build contract, the winning bidder shall be responsible for the preparation and submission of all necessary detailed engineering investigations, surveys and designs ***in accordance with the provisions of Annex "A" of this IRR*** *(with the exception of the Bidding Documents and the ABC).*

8.2 The procuring entity shall ensure that all the necessary schedules with regard to the submission, confirmation and approval of the detailed engineering design and the details of the construction methods and procedures shall be included in the contract documents." (emphasis supplied)

10.16 Relative thereto, Item 1 of Annex A – Detailed Engineering for the Procurement of Infrastructure Projects of the 2016 RIRR of RA No. 9184, states that:

"1) ***Detailed engineering shall proceed only on the basis of the feasibility or preliminary engineering study made*** *which establishes the technical viability of the project and conformance to land use and zoning guidelines prescribed by existing laws. The findings contained in the feasibility study, if*

undertaken for the project, shall be examined. If, in the course of this exercise, it is found that changes would be desirable in the design standards of principal features, as proposed, specific recommendations for such changes shall be supported by detailed justifications, including their effects on the cost, and (if necessary) the economic justification." (emphasis supplied)

10.17 Based on the foregoing provisions, considering the subject procurement pertains to a "design and build" infrastructure project, the winning bidder shall be responsible for the preparation and submission of all necessary detailed engineering investigations, surveys, and designs. On the other hand, the procuring entity shall conduct the preliminary design and construction studies and ensure compliance with the requirements under Item 8.2 of Annex G of the 2016 RIRR of RA No. 9184.

10.18 Considering the magnitude and complexity of the NGIE and the ongoing issues of NDCIE, such as the unresolved land encroachment disputes by various adjacent landowners, and suspension of ongoing site development works, the required feasibility or preliminary engineering study will be crucial in determining risks associated with the NGIE project.

10.19 A feasibility or preliminary engineering study for a project covers major aspects. It establishes the technical viability of the project and conformance to land use and zoning guidelines prescribed by existing laws. It is an initial assessment conducted to evaluate the practicability and potential success of the project at hand, considering factors like technical viability, economic feasibility, environmental impact, legal considerations, and social implications, ultimately determining the success of the project.

10.20 However, inquiry with NDC personnel disclosed that the feasibility study (FS) used as basis in the preparation of the Updated Market Research and Terms of Reference for the NGIE project was the decade-old FS prepared by then NDC consultant for the expansion of FCIE in 2013, which was then used for the NDCIE project.

10.21 The FS conducted in 2013 is outdated, considering that the current procurement project is different from the original subject of the study. As emphasized in our previous years' Audit Observation Memoranda on the NDCIE project, most issues and lapses in the implementation of the project can be attributed to the design's inaccuracies and/or obsolescence of the data used. Thus, reusing outdated information may not be suitable and/or unreliable for use in the present project.

10.22 Moreover, the audit team observed the different names used in reference to the new project, such as:

Table 13 - Different Names of the New Project

Document	Description/Name
Item "I" Background, Chapter 1: Project Description of the Terms of Reference	NDCIE is being redesigned and envisioned to be the **NDC Green Industrial Sustainable Ecozone** (NGIE).
NDC Board Resolution No. 24-02-02:	**2nd phase** of the NDC Green Industrial Sustainable Ecozone
NDC CY 2024 Annual Procurement Plan	NDC Phase 2: Green and Sustainability Development

10.23 The various names used to refer to the project may cause confusion to the stakeholders, especially considering that Proclamation No. 677 specifically stated that the created Special Economic Zone is to be known as NDCIE.

10.24 We recommended that Management:

a. Determine the necessity of conducting an updated feasibility or preliminary engineering study for the NGIE project;

b. Resolve issues surrounding the NDCIE, such as termination of the contract, the settlement with the contractor, and encroachment by adjacent lot owners, among others;

c. Confirm whether NGIE is a continuation of the NDCIE, 2nd phase of NDCIE, or a new project;

d. Determine possible legal issues which may arise, considering that Proclamation No. 677 specifically states that the Special Economic Zone is to be known as NDCIE instead of NGIE; and

e. Henceforth, ensure compliance with the guidelines for the procurement and implementation of contracts for infrastructure projects in accordance with the updated 2016 RIRR of RA No. 9184.

10.25 Management confirmed that the feasibility study for the project was conducted in 2013, thus, it merits the need for the study to be updated to make the data, figures, and assumptions more reflective of the current economic and market conditions as well as regulatory frameworks that may or may no longer be relevant to the project.

10.26 On the recommendation to resolve the issues surrounding NDCIE, Management commented that this was referred to the Legal Department and is currently undergoing a thorough review.

10.27 In light of the intermittent water disruptions in Dasmariñas, Cavite, due, in part, to overextraction and an increase in the domestic population, it was proposed that a water retention pond be made available within the estate to supplement the water requirements of the locators. The water retention facility shall form part of the second phase of the NDCIE project. This will ensure sustainability and resource availability in the estate and augment the carrying capacity of the NDCIE.

10.28 The name NGIE was the proposed nomenclature for the project as a marketing strategy to set the project apart from other government-owned and operated economic zones offering an Environmental, Social, and Governance- and sustainability-led value proposition to would-be locators. Nevertheless, Management was amenable to officially refer to the project as the NDCIE to avoid further conflicts and to remain consistent with the approvals and documentation.

10.29 Further, Management committed to comply with the procurement guidelines in accordance with the updated RIRR of the Procurement Act.

10.30 The Audit Team's inquiry with the Business Development and Special Projects Groups disclosed that there are new updates with the status of the NGIE and NDCIE Projects. The Audit Team requested that Management submit supplementary comments, including supporting documents. Supplementary comments of Management were presented in Paragraph 11.28.

11. The Site Development Works for the NDCIE Project located in Barangay Langkaan II, Dasmariñas City, Cavite, with a contract amount of P171.737 million, remained unfinished despite the adjusted date of completion on January 30, 2024.

11.1 This is a reiteration of the prior year's audit observation with updated information.

11.2 In 2013, the NDC BOD approved the development of NDC's 19.2-hectare land in Barangay Langkaan II, Dasmariñas City, Cavite as a special economic zone, to be developed by FCIE, Inc.[32]. Subsequently, Management hired a consultant for the Design and Detailed Engineering.

11.3 In 2022, the Site Development Works for the NDCIE Project (the Project for brevity) with an approved budget of P190.375 million was awarded to a certain construction corporation (herein referred to as Contractor) through public bidding in the amount of P171.737 million. The contract period is 540 calendar days commencing upon receipt of Notice to Proceed (NTP) by the contractor on February 16, 2022, and ending on August 9, 2023.

11.4 The Project covers supply of labor, equipment and materials for the construction of site development works – site grading, road works, drainage system, water supply and fire protection system, sewer lines, sanitary treatment plant, generator set, administration complex, perimeter fence, slope protection and landscape and greening, among others.

11.5 Subsequently, NDC conducted the Procurement of Construction Supervision of the project through public bidding. On March 22, 2022, the contract for the Consulting Services for Construction Supervision was awarded to a consulting contractor in the amount of P11.474 million. The contract period is 30 months, commencing upon the receipt of the NTP by the consultant. The NTP was received on May 11, 2022.

11.6 On May 19, 2022, the NDC received a stoppage order dated May 16, 2022, from the Local Government Unit (LGU) of Dasmariñas City, due to the contractor's failure to secure business and development permits for the project. Consequently, NDC, in its letter dated May 24, 2022, instructed the contractor to suspend work operations and obtain the necessary permits.

11.7 Eventually, the contractor complied and submitted all the required documents to the LGU, and a series of inspections and evaluations were conducted by the latter on the project. The development permit for the project and the business permit of the

[32] The project was initially approved by the Board in December 2000, however the public bidding for the joint venture development did not materialize. On May 19, 2014, the NDC Board approved the application for registration of the development of the property with NDC as the developer.

Contractor to conduct business in Dasmariñas City were granted on January 17 and 24, 2023, respectively. On January 25, 2023, the construction activities resumed.

11.8 As a result of the delay, the Catch-Up Plan, Project Evaluation and Review Technique, Critical Path Method, and Revised Work Schedule were submitted by the contractor. It was subsequently approved by NDC, extending the term of the contract until December 19, 2023. The term was further extended until January 30, 2024, due to the contractor's request for a Variation Order amounting to P16.965 million.

11.9 On May 15, June 5, and 12, 2023, soil erosion occurred at the area of the proposed Drainage Outfall and Road 2 of the Project, causing further delay. NDC, in its letter to the contractor dated August 23, 2023, suspended indefinitely all works that were directly affected by the soil erosion, as it may endanger the safety of workers, equipment, and structures, including the construction of the Administration Building.

11.10 Furthermore, the construction works at Deep Well Nos. 5, 7, 8, and Pump Complex No. 3 inside the First Cavite Industrial Estate (FCIE) were suspended due to objections from the LGU. As a result, the NDC in its letter to the contractor dated August 29, 2023, instructed the contractor to suspend all works related to the water supply system of NDCIE effective August 25, 2023. However, minor works continued on the project site.

11.11 As discussed in Paragraph 10.8, all service providers were required to secure approval from NDC-Business Development Group regarding the ingress and egress of all personnel, the movement of equipment and construction materials, and the conduct of any related activities therein.

11.12 On August 29, 2024, the NDC's 19.2-hectare land was proclaimed as a Special Economic Zone.

11.13 On the other hand, the ocular inspection on November 4, 2024, disclosed the following:

a. Issues surrounding the NDCIE, such as termination of the contract, the settlement with the contractor, and encroachment by adjacent lot owners, among others;
b. No construction activity;
c. Unfinished concrete perimeter fence near the creek, and in the area adjacent to a school;
d. Five spans of concrete perimeter fence near the creek collapsed;
e. Wild grasses are creeping towards the finished roads;
f. Open manhole/drainage which is prone to clogging due to the accumulation of foliage, soil, sand, and other materials;
g. The contractor and project manager's temporary housing, staff house, and storage warehouse were partially damaged; and
h. Several construction equipment and machinery owned by the contractor were found inside the property.

11.14 As of December 31, 2024, completed works for the NDCIE is at 76.17 per cent, with a total incurred cost of 141.568 million, while the project manager for the construction supervision was paid P8.437 million.

11.15 As discussed above and noted in our previous years' Annual Audit Reports, several problems surfaced during the project implementation, which resulted in the suspension of work, a delay of 174 calendar days, and an increase in contract cost. Also, the term of the contract was extended to December 19, 2023, and further extended until January 30, 2024.

11.16 In view of the above, the prolonged resolution of cited issues on the unfinished project may result in the deterioration of completed works, clogged drainage system, soil erosion, damage to the completed concrete perimeter fence, as these are exposed to natural elements without proper maintenance.

11.17 To date, Management has yet to come up with a definitive plan of action to resolve the said issues and circumstances, resulting in prolonged work suspension and the uncertain status of the project.

11.18 We reiterated our prior year's recommendations that Management:

a. Develop a definitive action plan to resolve the issues surrounding the NDCIE project, such as soil erosion, delay in implementation of the project, and encroachment by adjacent lot owners, among others;

b. Determine appropriate action/remedy provided in the site development work Contract and 2016 Revised IRR (RIRR) of Republic Act (RA) No. 9184[33] on the proper resolution/settlement of the Project;

c. Implement and monitor adopted action plan/remedies employed, and apprise the Audit Team of the status of the Project; and

d. Henceforth, ensure compliance with the guidelines for the procurement and implementation of contracts for infrastructure projects in accordance with the updated 2016 RIRR of RA No. 9184.

11.19 Management commented that NDC was constrained to suspend all works which started in May 2023, due to the massive soil erosion along Road 2 near the drainage outfall area, where most of the remaining major works are to be constructed. The soil erosion occurred several times during the rainy season, which made the area unsafe and unworkable. Upon the recommendation of the NDC's Management Consultant, the works near the eroded area were all suspended indefinitely due to the unstable soil condition. The unworkable condition at the site has persisted beyond the January 30, 2024 scheduled completion date.

11.20 In February 2024, at the outset of the dry season, NDC decided to lift the work suspension at the eroded area. However, the Contractor warned that the structures to be constructed will surely collapse without the provision of a retaining wall.

11.21 On February 15, 2024, the Board approved the budget for an additional phase of the project, wherein there will be major changes in the design of the structures at the eroded area to address the soil erosion. Under the new scope, the sunken portion near the said area will be developed into a water impounding facility to augment the water supply for the project and its future expansion. Concrete walls for the impounding facility will be designed to withstand the soil pressure from the surrounding areas.

[33] Updated as of July 19, 2024

11.22 On February 12, 2025, the bidding for the additional phase was declared failed by the NDC-BAC. The rebidding will be undertaken upon review and revision of the terms of reference of the bidding documents. The terms of reference will be revised to include, among others, the remaining works at the eroded area (i.e., Administration Building, Road 2, etc.)

11.23 Along with the suspension of works at the eroded area, the construction works for deep wells and related structures for the water supply system were also suspended since August 29, 2023, as a result of the meeting with the LGU of Dasmariñas City on August 25, 2023. During the said meeting, the LGU expressed its strong opposition against NDC's plan to draw water from First Cavite Industrial Estate (FCIE) for the NDCIE, stressing that FCIE is not allowed to supply water outside of its area. Further, the LGU has directed the NDC to coordinate with the local water district for the source of water supply for the NDCIE. However, based on the discussions that transpired during subsequent meetings with the local water district, the options presented by the local water district were assessed to be unfavorable to NDC.

11.24 Citing the above as compelling reasons, NDC requested from FCIE Association (FCIEA) the transfer of two water permits (Deep Well Nos. 5 & 7) to NDC on September 18, 2023. The request was granted by FCIEA on November 16, 2023. A second request for an additional two deep wells was sent on April 29, 2024. Based on the results of the meetings with the FCIEA, the association will only allow the transfer of three deep wells to NDC.

11.25 As of this date, NDC is working on the reconveyance of the three deep wells from the FCIEA. Construction and rehabilitation of the water supply system are included in the scope of work of the NGIE.

11.26 As regards the recommendations, the Management commented that:

a. Relative to the encroachment by adjacent properties, the initially-approved action of NDC to donate/sell the affected areas will need further evaluation due to the declaration of the NDCIE as Special Economic Zone in August 2024, as the law may provide restrictions on the disposition of Philippine Economic Zone Authority (PEZA) covered areas. As regards to the other issues, Management shall comply as recommended.

b. NDC will terminate the Contract with its Contractor using the provisions of Section 18, Paragraph 18.1 of the General Conditions of the Contract, which provides for Termination for Other Causes, particularly at the Procuring Entity's convenience.

c. Management shall comply as recommended.

d. Management shall comply with the procurement guidelines in accordance with the updated RIRR of the Procurement Act as recommended.

11.27 However, Management, in their updated Reply dated May 13, 2025, provided that based on the discussions during the meeting with the Contractor of the NDCIE Project on May 9, 2025, NDC will continue the completion of the remaining works. NDC will also implement a new construction option to address the issue of soil erosion through

Negotiated Procurement for Adjacent or Contiguous works, subject to NDC Management Committee (ManCom) and Board approvals.

11.28 Management supplemented, with regard to the issue on the encroachment by adjacent lot owners, NDC received an opinion from the Office of the Government Corporate Counsel (OGCC) dated April 15, 2025, stating that PEZA is the authority in the determination or resolution of property encroachment issues. This is pursuant to the powers and functions of PEZA under Sections 12 and 13 of RA No. 7916, also known as the Special Ecozone Act, as amended by RA 8748. NDC will meet with the OGCC and PEZA to discuss this matter.

11.29 The Audit Team requested that Management provide a copy of the OGCC Opinion dated April 15, 2025, and apprise the Audit Team of the update on the new construction option, and subsequent approvals by the ManCom and Board.

12. The value of NDC's investment amounting to P45 million in the Rizal Hydropower Project declined significantly, due to the continuous losses since its commercial operations in CY 2016.

12.1 This is a reiteration of the prior year's audit observation with updated information.

12.2 On July 1, 2014, NDC and Philippine National Oil Company (PNOC) Renewables Corporation (RC) executed a Memorandum of Agreement (MOA) to establish and enter into a partnership for the development, commercialization, operation and maintenance of the Rizal Hydropower Project (the Project, for brevity) for energy commercialization located in Rizal, Nueva Ecija.

12.3 On December 17, 2014, NDC infused P45 million, representing its 50 per cent share of the total required capital for the Project. Also, NDC shall jointly monitor the Project through its participation in the Project Monitoring Committee (PMC) formed by the parties.

12.4 On December 19, 2014, pursuant to Section 8.1 of the said MOA, NDC and PNOC RC together with Development Bank of the Philippines (DBP) entered into an Escrow Agreement, wherein PNOC RC and NDC (the principals) shall deliver in escrow to DBP (escrow agent) the amount of P45 million each, intended for the operation and other related expenses of the project.

12.5 The Project started its commercial operation on July 1, 2016. However, except for CY 2017 it continuously incurred operating losses. As a result, the Project's Equity have declined over the years as follows:

Table 14 - Project's Financial Performance

	Income	Expenses	Net Income (Loss)	NDC's 50% share
2016	2,331,831	5,309,981	(2,978,150)	(1,489,075)
2017	9,261,720	8,696,708	565,012	282,506
2018	5,697,650	7,397,656	(1,700,006)	(850,003)
2019	6,499,279	8,212,260	(1,712,981)	(856,491)
2020	4,017,260	7,949,714	(3,932,454)	(1,966,227)
2021	4,162,519	7,338,872	(3,176,353)	(1,588,177)

	Income	Expenses	Net Income (Loss)	NDC's 50% share
2022	464,140	5,478,076	(5,013,936)	(2,506,968)
2023	3,844,549	7,474,031	(3,629,482)	(1,814,741)
2024	111,874	4,340,250	(4,228,376)	(2,114,188)
Total	**36,400,656**	**57,857,298**	**(21,456,642)**	**(10,728,322)**

12.6 The result of the Project's operations is far from Management's projections in CY 2013. Accordingly, the Project has a financial internal rate of return of 12.36 per cent, and a targeted payback period of eight years. As of December 31, 2024[34], NDC's 50 per cent share in the Project, from its initial investment of P45 million, has declined to P26.596 million[35], as shown below:

Table 15 - Project's Financial Position

	Assets	Liabilities	Equity
2016	88,468,438	12,260,251	76,208,187
2017	87,543,154	10,769,955	76,773,199
2018	86,719,532	11,646,340	75,073,192
2019	78,101,283	4,742,766	73,358,517
2020	75,374,175	6,040,878	69,333,297
2021	70,823,753	4,666,808	66,156,945
2022	65,917,182	4,774,174	61,143,008
2023	62,577,218	5,156,042	57,421,176
2024	58,758,969	5,566,169	53,192,800

12.7 Since the project commenced its commercial operation, it has not been operating on a regular basis due to the inconsistent and inadequate water flow rate going to the facility, and the occasional breakdown of major equipment.

12.8 The volume of water in the Pampanga River Irrigation System Main Canal (PRISMC) and its flow rate are under the control of the National Irrigation Administration (NIA). NIA regulates the flow rate based on the season of the year, and also on the effects primarily on the farmers and nearby communities. During the rainy season, NIA releases minimal water; otherwise, it would inundate the farmland and nearby communities. However, during the dry season, NIA releases or rations only such volume of water, necessary to meet the needs of the farmers to be able to last the drought.

12.9 We have noted this issue in our prior year's Annual Audit Report, that the Project is highly dependent on the regular water flow and volume, to function and generate enough electricity/power. Consequently, it directly affects the revenue generation and the longevity of the major equipment. Management commented that despite the efforts of the technical team to coordinate with NIA regarding the adjustment of water flow, the latter's consistent reply was that their main consideration is the farmers' water flow requirements.

12.10 In September 2019, the PNOC RC Board of Directors (BOD) approved the proposition to dispose/sell the Project. Accordingly, the hydropower plant was valued by an

[34] Unaudited balances for the period ending December 31, 2024
[35] Fifty per cent of the Project's Equity as of December 31, 2024

independent appraiser at P79.480 million. However, the disposal did not materialize. In July 2023, it again engaged an independent appraiser for the purpose of disposal, and the latter valued the plant at P56.213 million.

12.11 On January 24, 2024, PNOC RC informed NDC in their regular meeting that the plant stopped its operation permanently due to the following major issues:

a. Maintenance and technical issues (the spare parts to be procured for the major equipment, and technicians who will install and repair were exclusively from China); and

b. The fixed-term employees, except the plant manager and security guards, assigned to manage the plant have voluntarily resigned. Relative thereto, the Governance Commission for GOCCs released Memorandum Order No. 2024-15 dated September 27, 2024, re: "*Abolition of 21 Positions in the PNOC RC*" due to financial losses since 2013.

12.12 On October 18, 2024, the Audit Team witnessed the inventory of property and equipment at the Rizal Hydropower plant and conducted an ocular inspection on its current condition. During the said activities, it was noted that the machinery and equipment are generally functioning, although some need repair and maintenance. However, the plant manager who accompanied the inspectorate team[36], commented that the prolonged shutdown and absence of regular maintenance will eventually render all machinery and equipment unserviceable.

12.13 Per NDC-Business Development Group, they will present to the NDC Management Committee and Board of Directors a proposal to buy the share of PNOC RC in the plant, and outline the potential revenue and investment opportunities associated with the rehabilitation of the plant after the completion of the following:

a. Review of the legal aspect by the NDC-Legal Department;
b. Detailed technical assessment; and
c. PNOC RC decision on the potential sale of their share.

12.14 Based on the foregoing, we observed that the Project is in an inauspicious state with its financial performance remaining unsatisfactory. Despite being in commercial operations for eight years, the Project continues to incur losses due to its irregular and unstable operations. Without immediate action and decisive intervention, the value of NDC's investment is at risk of further deterioration.

12.15 We reiterated our prior year's recommendations that Management:

a. To decide at the soonest possible time, NDC's direction and possible course of action on the Rizal Hydropower Project, to address the declining value of its investment in the project; and

b. Coordinate and relay with PNOC RC the direction and plans on the project, and possibly obtain the most advantageous outcome for the parties, and ultimately, for the government.

[36] Composed of representatives from the Audit Team and NDC.

12.16 Management commented that a decision can be made once the below enumerated activities have been conducted in earnest:

a. Meet with the NIA. A letter jointly signed by the members of the RPMC will be sent to the officials of the NIA to discuss the current situation of the project and whether a change in policy direction may improve the chances of the project's survival. Without a clear understanding of NIA's deeper participation into the project, it will be almost impossible to sell the project collectively to anyone as the fuel source for the hydropower plant will continue to be intermittent.

b. Conduct a Third-party Appraisal. As proposed by PNOC RC, this will entail an extensive technical assessment of the remaining assets in the plant in preparation of the disposition of the property, regardless of the method. One foreseeable downside of going through the appraisal process is the further degradation of the assets' market value in light of the non-operating status of the plant and the need to rehabilitate the turbines, including replacement of component parts. The identified appraisal value will become the baseline for the disposition of the remaining assets or when negotiating with third parties for other modes of disposition.

c. Consider Alternative Modes of Disposition. There are four modes of disposition being considered to optimally recover or possibly push for the furtherance of the operations of the plant. That said, the committee is open and preparing for the remote possibility of a "dismantle-and-store" of the plant assets should NIA decide to terminate the agreement:

i.) Outright Sale

ii.) Lease-Operate-Transfer (entails a third party coming in to rehabilitate the plant and once operational, pay a monthly lease on the asset for an agreed length of time such that upon conclusion of the agreement, ownership and operations revert to PNOC RC and NDC)

iii.) Joint Venture (entails the entry of a third party into the unincorporated JV between PNOC RC and NDC to rehabilitate and operate the plant; thereby diluting the shares of the government)

iv.) Dismantle and Store

12.17 Furthermore, Management reiterated that all efforts are currently being explored to ensure that the government optimally recovers its investments from this project.

12.18 The Audit Team will monitor Management's subsequent actions.

13. The project implementation process and noted deficiencies in the final output of the Service Provider of Corporate Branding and Video Content Production for NDC were not in accordance with Annexes D and E of the contract[37]. Thus, it is considered irregular under Commission on Audit Circular No. 2012-003 dated October 29, 2012.

13.1 On July 6 to 26, 2023, the Invitation to Bid for the Project was posted in the Philippine Government Electronic Procurement System (PhilGEPS). One prospective bidder signified its intention to participate in the public bidding (PB). However, during the opening of eligibility requirements and bids on July 26, 2023, the lone bidder was declared ineligible for non-compliance with the required bidding documents.

13.2 The opening of bids for the second PB was conducted on September 11, 2023. The same prospective bidder participated in the PB and was successful. Subsequently, the lone bidder was declared as the Single Calculated Responsive Bidder (SCRB) and was awarded the contract amounting to P1.976 million. The Notice of Award dated November 16, 2023, was received by the SCRB on November 17, 2023. The contract was executed on November 30, 2023, and on the same day, the Notice to Proceed (NTP) was issued. It was received by the SCRB on December 1, 2023.

13.3 Under Annex D[38] of the Contract, the delivery period is 30 calendar days (CD) upon receipt of the NTP, exclusive of the days needed for approval of intermediate outputs. The delivery schedule is shown below:

Table 16 – Delivery Schedule

Description	Delivery
1. Concept paper on the corporate branding campaign and the materials to be produced;	5 CDs after the issuance of NTP
2. Data and photos as inputs to the production of video content, video storyboard, and sequence guide;	10 CDs after approval of the concept paper
3. Draft video content/materials;	5 CDs after gathering data, photos and videos
4. Edited video material, initial material to be shown to NDC for approval and/or comments; and	7 CDs after completion of the materials
5. Final video materials submitted to NDC	3 CDs after final comments

13.4 The conditions and detailed requirements were stipulated in Annex E[39] of the Contract, as follows:

i. Concept paper on the corporate branding campaign and the materials to be produced that should include: a) explanation of its role as an attached agency of the Department of Trade and Industry (DTI) and how it functions as the investment arm of the government; b) brief history of NDC; c) key personalities of NDC and DTI; and d) highlight selected projects of NDC.

ii. Conduct research, write a storyboard, and develop a sequence guide.

[37] Contract for the Procurement of a Service Provider for Corporate Branding and Video Content Production for the NDC
[38] Section VI of the Bidding Documents – Schedule of Requirements
[39] Section VII of the Bidding Documents – Technical Specifications

iii. Video shoot and content production for the various NDC properties and events, i.e., Glovax Facilities, Davao Biothermal Facilities, NDCIE, Batangas Land Company, Inc. (BLCI) properties, LIDE, Philippine Innovation Hub, speaking engagement of the General Manager (GM), and other Startup Venture Fund (SVF)-related events. (Included in the cost are the logistics, transportation, and lodging during the period of production.)

iv. Video editing and treatment – Edited video material, initial material to be shown for NDC approval and/or comments which will be presented to the NDC Management for comments and/or approval.

v. Finalization of Video Content – final video materials submitted to NDC.

13.5 Notwithstanding the number of activities that needed to be covered in various parts of the country, the Service Provider completed the Project in just four days from the date the NTP was received. NDC issued a Certificate of Output Acceptance (CoOA) as confirmation of the successful acceptance of the services on December 5, 2023, and further certifying that the output has undergone review and evaluation, meeting the criteria and specifications outlined.

13.6 Payments were received by the Service Provider on December 12, 2023, with Check No. 154645 dated December 12, 2023, for 70 per cent progress billing, and on December 20, 2023, with Check No. 154657 dated December 14, 2023, for the remaining 30 per cent, amounting to P1.390 million and P0.586 million, respectively.

13.7 Review of the project implementation process as well as the output disclosed the following:

a. There was no documentation on the compliance of the Service provider on the submission of the initial concept paper on the campaign and materials to be produced, data and photos, and sequence guide, and draft video to Management for comments and/or approval as stipulated in Annex D of the Contract.

b. On December 5, 2023, NDC issued a CoOA as confirmation of the successful acceptance of the services and certified that the output has undergone review and evaluation, meeting the criteria and specifications outlined. Contrarily, the final output was only presented to and approved by the NDC Management Committee (ManCom) during its meeting on December 11, 2023.

c. The warranty of two years on outputs and services stipulated in Annexes D and E was not covered by either retention money or bank guarantee. This is not in accordance with Section 62.1 of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184, which states that:

"Xxx

The obligation for the warranty shall be covered by either retention money in an amount equivalent to at least one percent (1%) but not to exceed five percent (5%) of every progress payment, or a special bank guarantee equivalent to at least one percent (1%) but not to exceed five percent (5%) of the total contract price. The said amounts shall only be released after *the lapse of the warranty period or, in the case of Expendable Supplies, after consumption thereof: Provided, however, That the supplies delivered are free from patent and latent defects and all the conditions imposed under the contract have been fully met."*

13.8 Moreover, one of the conditions and detailed requirements stipulated in Annex E is *"video shoot and content production for the various NDC properties and events, i.e. Glovax Facilities, Davao Biothermal Facilities, NDCIE, BLCI properties, LIDE, Philippine Innovation Hub, speaking engagement of the GM, and other SVF-related events. (Included in the cost are the logistics, transportation, and lodging during the period of production.)"* Review of the video materials[40] used in the final video revealed the following:

a. Inspection of the general properties of the video materials showed that these were taken between April 2023 and August 2023. This means that the video shoot and content production already started even before the first Invitation to Bid was posted in the PhilGEPS and was later completed prior to the posting of the 2nd Invitation to Bid.

b. One of the events shown in the final video was taken in an event conducted last May 2023. The event was featured on a local news website where the former General Manager was seen in attendance.

c. Drafts of the voice-over used in the video were recorded as early as April 2023, while some revisions and enhancements were recorded in July 2023.

d. The above timelines occurred prior to the award of the contract. Moreover, Annex E states that the video will be presented to the NDC Management for comments and/or approval. The NTP was received by the Service Provider on December 1, 2023, while the NDC accepted as completed the Project on December 5, 2023. However, ManCom approved the video only on December 11, 2023. Strangely, it was received as completed before it was approved.

13.9 Assuming *arguendo* that NDC would claim that the materials used were already prepared and provided by NDC to the Service Provider, then the P2 million Approved Budget for the Contract (ABC) would be excessive, thus disallowable in audit, since P1.100 million of it covers the gathering of data, photos, and video shoot, and related expenses.

13.10 Meanwhile, in our Audit Query Memorandum No. 2024-011 (23) dated October 3, 2024, the Audit Team requested proof of the timely transmittal of the contractor, and receipt of NDC of the former's outputs. Management, in their reply dated November 15, 2024, stated that due to the need to expeditiously complete the project, correspondences were not kept. To quote:

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[40] On June 27, 2024, a copy of the final output was transmitted to the Audit Team. Subsequently, on August 20, 2024, the following were also transmitted: a) data, photos, and edited video material for the production of video content; and b) the final video, along with a shortened version and a teaser of the video content.

"5. Proof of timely transmittal of the contractor and receipt of NDC for the draft output, final product and raw files of photos and videos, which may include but not limited to electronic correspondence or traditional communication (i.e. emails, official letters);

Due to the need to expeditiously complete the project in December, 2023, any electric correspondence was then done through landline, SMS or texts with a [Service Provider] would have not been kept on any electronic device as our key focus then ***was to ensure that the [Service Provider] expeditiously complete the project in December, 2024,*** *[sic] so the material could already be used as needed.*

Xxx"

13.11 Based on the above statement, Management's inability to monitor the timeline of submission and to keep records on the receipt thereof is a failure in ensuring adherence to the governing principles of transparency and public monitoring of government procurement.

13.12 As stated in Section 2 of the 2016 RIRR of RA No. 9184, it is the policy of the Government of the Philippines (GoP) that procurement shall be transparent and monitored. Section 3 further provides the governing principles of government procurement, to wit:

"The procurement of the GoP shall be governed by these principles:

a) Transparency in the procurement process and in the implementation of procurement contracts through wide dissemination of bid opportunities and participation of pertinent non-government organizations.

Xxx

e) Public monitoring of the procurement process and the implementation of awarded contracts with the end in view of guaranteeing that these contracts are awarded pursuant to the provisions of the Act and this IRR, and that all these contracts are performed strictly according to specifications."

13.13 In view of the above, evident deviations in the project implementation process and noted deficiencies, contrary to the terms and conditions of the contract, are considered irregular under 3.1 of Commission on Audit (COA) Circular No. 2012-003, which defines "IRREGULAR" EXPENDITURES, to wit:

"The term "irregular expenditure" signifies an expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. Irregular expenditures are incurred if funds are disbursed without conforming with prescribed usages and rules of discipline. There is no observance of an established pattern, course, mode of action, behavior, or conduct in the incurrence of an irregular expenditure. A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is

deemed irregular. A transaction which fails to follow or violates appropriate rules of procedure is, likewise, irregular."

13.14 Also, Annex "A" of the same COA Circular states:

"Similar cases that may also fall under this category follow:

14.1 Acceptance of a project constructed not in accordance with plans and specifications and with noted deficiencies."

13.15 Further, the incurrence of these deviations may have given the private party unwarranted benefits, advantages or preference in the process, which may also be disadvantageous to the government. Thus, Management is reminded of Section 3 Paragraphs e and g of RA No. 3019[41] which state:

"Section 3. Corrupt practices of public officers. In addition to acts or omissions of public officers already penalized by existing law, the following shall constitute corrupt practices of any public officer and are hereby declared to be unlawful:

Xxx

(e) Causing any undue injury to any party, including the Government, or giving any private party any unwarranted benefits, advantage or preference in the discharge of his official administrative or judicial functions through manifest partiality, evident bad faith or gross inexcusable negligence. This provision shall apply to officers and employees of offices or government corporations charged with the grant of licenses or permits or other concessions.

Xxx

(g) Entering, on behalf of the Government, into any contract or transaction manifestly and grossly disadvantageous to the same, whether or not the public officer profited or will profit thereby."

13.16 Furthermore, Section 65 of the 2016 RIRR of RA No. 9184 provides the following:

"65.2 Private individuals who commit any of the following acts, and any public officer who conspires with them, shall upon conviction, suffer the penalty of imprisonment of not less than six (6) years and one (1) day but not more than fifteen (15) years:

xxx

d) When a bidder, by himself or in connivance with others, employs schemes which tend to restrain the natural rivalry of the parties or operates to stifle or suppress competition and thus produce a result disadvantageous to the public.

[41] Anti-Graft and Corrupt Practices Act

In addition, the public officer persons involved shall also suffer the penalty of temporary or perpetual disqualification from public office and the private individual shall be permanently disqualified from transacting business with the Government."

13.17 **We recommended that Management:**

a. **Explain the deviations and noted deficiencies from the terms and conditions of the contract and why this should not be disallowed in audit for being an irregular expenditure; and**

b. **Henceforth, ensure that all procurement activities are in compliance with the updated 2016 RIRR of RA No. 9184 and/or RA No. 12009[42] and its IRR.**

13.18 Management commented that NDC complied with the terms and conditions of the contract and that the procurement activity was conducted in accordance with RA No. 9184 and its RIRR.

13.19 With respect to the footages used by the service provider, NDC clarified that it has no control over the service provider's actions prior to its engagement. The decision of the service provider to take photos or videos during NDC events prior to its engagement was its own decision and not under instructions from NDC. The footages, before they were submitted as part of the presentation, are considered the property of the service provider. The decision to include the footages taken prior to the engagement is the service provider's decision. As far as NDC is concerned, for so long as such footage aligns with the storyboard and the purposes for which the service provider was employed, it is of no concern to NDC as to where and when it was taken. Any action pertinent to the matter was taken after an evaluation and review by concerned NDC officers and supported by proper documentation. These acts and documents enjoy the presumption of regularity and are relied on by NDC in good faith.

13.20 Management added that part of the supporting documents submitted per Disbursement Voucher (DV) No. 101-23-12-71 are the concept paper on the corporate branding campaign, sequence guide including the video and audio sequencing, and storyboard.

13.21 Moreover, the end-user, upon the request of COA, transmitted on June 27, 2024, the flash drive containing the video content from the service provider. Likewise, the video was presented to the NDC ManCom on December 11, 2023. Management then concluded that the requirements stipulated in Annex D of the contract were deemed complete before the processing of payment.

13.22 On COA's observation regarding the timeline, particularly the presentation to the ManCom on December 11, 2023 while the acceptance of the project as completed was done on December 5, 2023, Management commented that the Certificate of Output Acceptance (CoOA) attached to DV No. 101-23-12-71 only covered 70 per cent as stated in the Terms of Reference. The approval of the Management Committee is required only for the fourth intermediate output. Moreover, another CoOA for the

[42] New Government Procurement Act

remaining 30 per cent of work done was submitted as a supporting document for DV No. 101-23-12-85 dated December 14, 2023.

13.23 Further, Management disagreed that the ABC of the project is excessive. A market study was conducted in support of the ABC and the Terms of Reference. The end-user requested quotations from different service providers, and a comparison of the project costs established that the budget was within industry standards and reasonable and fair, given that it includes transportation costs and mobilization costs needed to implement the project and its sub-activities.

13.24 As for the absence of a two-year warranty, Management commented that the requirement of ten per cent retention money under Section 62, Annex D, and Annex E of the RIRR applied only to the procurement of goods and infrastructure projects.

13.25 Management commented that the corporate branding and video production are services that do not require the posting of retention money. Moreover, the output, composed of the concept paper, video, and audio recordings, is of such a nature that any defect could be observed upon presentation. Otherwise stated, the deliverables under the contract have undergone preliminary evaluation. Management stated that it would not have been accepted had the concept paper or any of the audio and video recordings been found to be defective or insufficient.

13.26 Hereunder is the Audit Team's rejoinder:

13.27 <u>*On the submission of outputs and the timeline of completion.*</u> Under Annex D[43] of the Contract, the timelines for the submission of the intermediate and final outputs were clearly stipulated. The first three required intermediate outputs were to be submitted depending on the completion of the first one. The fourth output was mainly for the review and comments of the Management, and final approval and acceptance for the fifth output.

13.28 Management commented that part of the supporting documents submitted per DV No. 101-23-12-71 is: a) a concept paper on the corporate branding campaign; b) a sequence guide including the video and audio sequencing; and c) a storyboard. However, our review of the said documentation showed that there was no written concurrence or approval from the Management for each required intermediate output.

13.29 Additionally, the attached outputs for video and audio sequencing, including the voice over and interviews, were different compared to the final output. Thus, if these were reviewed and approved as opined by Management, the differences should have been revised/corrected accordingly, before the issuance of CoOA.

13.30 Relative thereto, Management stated that there were two CoOA issued, one covers 70 per cent partial payment for the 1st, 2nd, and 3rd intermediate outputs, while the second is for the remaining 30 per cent work done. However, it is our view that although the payments were made on two separate dates, Management was not able to explain why the two CoOA were both issued on December 5, 2023, prior to the

[43] Section VI of the Bidding Documents – Schedule of Requirements

presentation and approval by the Management Committee of the final output on December 11, 2023.

13.31 *<u>On the absence of warranty.</u>* Management opined that the services procured do not require the posting of retention money since it is of such a nature that any defect could be observed upon presentation. Management added that the deliverables under the contract have undergone preliminary evaluation; hence, it would not have been accepted had the concept paper or any of the audio and video recordings been found to be defective or insufficient.

13.32 The Audit Team maintains its position. The warranty of two years on outputs and services was specifically stipulated in Annexes D and E of the Contract entered into by NDC and the service provider. And since its warranty was explicitly included in the contract, it should have been covered by either retention money or bank guarantee in accordance with Section 62.1 of the RIRR of RA No. 9184[44]. Additionally, Management's contention that the requirement of ten per cent retention money only applies to procurement of goods and infrastructure projects and not to procurement of services is misplaced since **goods,** as defined under Section 5 of the RIRR of RA No. 9184 provides:

> *"**Goods.** Refer to all items, supplies, materials and general support services, except Consulting Services and infrastructure projects, which may be needed in the transaction of public businesses or in the pursuit of any government undertaking, project or activity, whether in the nature of equipment, furniture, stationery, materials for construction, or personal property of any kind, including non-personal or contractual services, such as, the repair and maintenance of equipment and furniture, as well as trucking, hauling, janitorial, security, and related or analogous services, as well as procurement of materials and supplies provided by the Procuring Entity for such services. The term "related" or "analogous services" shall include, but is not limited to, lease of office space, **media advertisements**, health maintenance services, and **other services essential to the operation of the Procuring Entity."*** (emphasis ours)

13.33 *<u>On other deviations and Approved Budget for Contract (ABC).</u>* The Audit Team provided in the Audit Observation Memorandum that if the materials used in the final output were prepared and provided by NDC to the service provider, the ABC would have been excessive since the cost of gathering data, photos and video shoot, and related expenses are considered in the budget. However, Management confirmed that the footages used by the service provider was taken prior to its engagement and that it was the service provider's decision to take photos or videos during NDC events prior and not under instructions from NDC.

13.34 The above statement of Management confirms the Audit Team's observation that the service provider has already initiated gathering materials prior to the award of the contract. Since Management commented that the actions of the service provider are not under NDC's instructions, then it is perplexing that a business entity would be

[44] Updated as of July 19, 2024

willing to perform such activities without the assurance that the contract will be awarded to them.

13.35 However, the service provider should have only known of the procurement when the Invitation to Bid for the Project was first posted on July 6, 2023. But apparently, some of the materials used were already prepared/gathered by the service provider at least two months ahead of the posting of invitation. The drafting of voice over was started as early as April 2023, while shooting of events and NDC properties was performed as early as May 2023. Additionally, if the service provider gathered materials prior to the invitation to bid, it is concerning that they were able to gather footages in the NDC premises or projects even without valid authorization to capture videos and photos from the NDC.

13.36 The service provider continuously gathered materials during the bidding process and drafted the voice-over. And even though the service provider was declared ineligible during the opening of eligibility requirements and bids on July 26, 2023, it zealously continued gathering materials until August 2023.

13.37 The service provider's zealous effort to gather materials despite the uncertainty that the contract would be awarded to them is very evident. Unless the service provider can predict the future, it is likely that the service provider has prior knowledge of the procurement that will be conducted by NDC at least two months ahead. If such is the case, the service provider would have an undue advantage over the procurement proceedings.

13.38 Thus, we reiterate our audit observations that the deviations in the project implementation process and noted deficiencies, contrary to the terms and conditions of the contract, are considered irregular under 3.1 of COA Circular No. 2012-003, which defines "IRREGULAR" EXPENDITURES, to wit:

> *"The term "irregular expenditure" signifies an expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. Irregular expenditures are incurred if funds are disbursed without conforming with prescribed usages and rules of discipline. There is no observance of an established pattern, course, mode of action, behavior, or conduct in the incurrence of an irregular expenditure. A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. A transaction which fails to follow or violates appropriate rules of procedure is, likewise, irregular."*

13.39 Also, Annex "A" of the same COA Circular states:

> *"Similar cases that may also fall under this category follow:*
>
> *14.1 Acceptance of a project constructed not in accordance with plans and specifications and with noted deficiencies."*

13.40 Further, the incurrence of these deviations may have given the private party unwarranted benefits, advantages, or preference in the process, which may also be disadvantageous to the government. Thus, Management is reminded of Section 3 paragraphs e and g of RA No. 3019[45] which states:

> *"Section 3. Corrupt practices of public officers. In addition to acts or omissions of public officers already penalized by existing law, the following shall constitute corrupt practices of any public officer and are hereby declared to be unlawful:*
>
> *xxx*
>
> *(e) Causing any undue injury to any party, including the Government, or giving any private party any unwarranted benefits, advantage or preference in the discharge of his official administrative or judicial functions through manifest partiality, evident bad faith or gross inexcusable negligence. This provision shall apply to officers and employees of offices or government corporations charged with the grant of licenses or permits or other concessions.*
>
> *xxx*
>
> *(g) Entering, on behalf of the Government, into any contract or transaction manifestly and grossly disadvantageous to the same, whether or not the public officer profited or will profit thereby."*

13.41 Furthermore, Section 65 of the 2016 Updated RIRR of RA No. 9184 provides the following:

> *"65.2 Private individuals who commit any of the following acts, and any public officer who conspires with them, shall upon conviction, suffer the penalty of imprisonment of not less than six (6) years and one (1) day but not more than fifteen (15) years:*
>
> *xxx*
>
> *d) When a bidder, by himself or in connivance with others, employs schemes which tend to restrain the natural rivalry of the parties or operates to stifle or suppress competition and thus produce a result disadvantageous to the public.*
>
> *In addition, the public officer persons involved shall also suffer the penalty of temporary or perpetual disqualification from public office, and the private individual shall be permanently disqualified from transacting business with the Government."*

13.42 In view of the foregoing, we recommend that Management create an independent team to investigate the events that transpired from the pre-procurement stage until the acceptance of the output of the Service provider and subsequent payment thereof, including all the personnel and private parties involved. Provide the Audit Team and the NDC Board of Directors (BOD) with the result of the investigation.

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[45] Anti-Graft and Corrupt Practices Act

14. The intention to use First Cavite Industrial Estate Inc. (FCIEI) as a corporate vehicle to develop NDC's industrial estate project prompted the NDC BOD to request the revocation of the Office of the President (OP) Memorandum Order (MO) No. 62, order of abolition, disrupting the liquidation of its assets and settlement of liabilities and exposing FCIEI to further losses.

14.1 FCIEI was formerly a joint venture project of the NDC, Marubeni Corporation, and Japan International Development Organization Ltd., a corporation established by KEIDANREN (Japan Federation of Economic Organization). FCIEI was registered with the Securities and Exchange Commission on December 14, 1990, with an authorized capital of P10 million and with the Board of Investments, on a non-pioneer status as an industrial estate developer.

14.2 In 2015, the BODs of FCIEI and NDC approved the dissolution of the former. On December 21, 2021, the Governance Commission for GOCCs (GCG) issued MO No. 2021-14 approving the deactivation of FCIEI. The OP approved the abolition of FCIEI through MO No. 62 from the Executive Secretary dated June 23, 2022.

14.3 In compliance with OP MO No. 62, the GCG created a Technical Working Group (TWG) composed of representatives from NDC, FCIEI, the Philippine Economic Zone Authority (PEZA), and the GCG. The said TWG shall coordinate with GCG to implement the following activities:

a. Settle the liabilities of FCIEI, undertake steps necessary in the liquidation of its assets, and assist in the winding-up of its corporate affairs;

b. Oversee the transfer of the remaining government functions of FCIEI to the concerned agencies;

c. Submit to the OP a quarterly report on the disposition of the assets of FCIEI, and the implementation of its abolition; and

d. Perform such other functions as may be necessary.

14.4 However, at the onset of the liquidation process, in a letter dated November 17, 2022, addressed to FCIEI, the NDC Management stated that it is evaluating whether to use FCIEI for the horizontal development of NDC Industrial Estate (NDCIE) or to create a new government corporation. The NDC Management cited the following reasons to retain FCIEI, to wit:

a. NDC will use FCIEI as the corporate vehicle of the NDCIE Project;

b. There is a need for right-of-way access, and FCIEI owns the common areas leading to the NDCIE Project; and

c. To avoid paying about P100 million in taxes for the transfer of FCIEI's common areas to NDC.

14.5 As a result, the NDC BOD issued Resolution No. 22-12-08 dated December 9, 2022, approving the request to revoke the order of abolition by the OP, and such other acts necessary for its application.

14.6 On June 28, 2024[46], the NDC BOD reaffirmed its resolve to request the revocation of MO No. 62 from the OP. The same decision was conveyed to the GCG and TWG during the 4th TWG Meeting held on August 8, 2024. NDC representatives provided several reasons on this matter, as discussed hereunder:

a. NDC is currently developing its 19.2-hectare land, also known as the NDCIE Project, which is adjacent to the First Cavite Industrial Estate (FCIE);

b. Several issues relative to the NDCIE Project will be resolved, such as water facilities, which were previously conveyed to the FCIE Association. These water facilities are being transferred back to the NDC to serve as an additional water source for NDCIE;

c. Using FCIEI is the most feasible option for the operation and management of water and power distribution of the NDC's industrial project;

d. Potential conflict with the FCIE Association, on the use of common areas and facilities that are transferred to the former, could be avoided;

e. Tax implications on the transfer of common areas to NDC;

f. Recent approval from the President of the Republic of the Philippines declaring the NDCIE Project as a Special Economic Zone; and

g. Changes in the administration and management of NDC that affect the direction of NDC and FCIEI.

14.7 In response, the GCG, during the 4th TWG Meeting, stated that there is no way to revive an abolished GOCC except through legislation, which would take years to achieve. Moreover, the GCG and PEZA have agreed that, in the absence of a Presidential issuance or directive amending the MO No. 62, the proceedings for the abolition of FCIEI will not be validly suspended, and the liquidation process shall be pursued.

14.8 As of December 31, 2024, no significant development has been observed in FCIEI's liquidation of assets and settlement of liabilities. Although representatives from NDC and FCIEI have been continuously working on other matters relating to the abolition of FCIEI, the same is stalled due to the shift in direction of NDC Management and Board. However, FCIEI Management[47] disclosed that no letter-request has yet been sent to the OP for the revocation of MO No. 62, since it was approved by the NDC BOD. Hence, the implementation of FCIEI's liquidation of assets and settlement of liabilities has been disrupted, contrary to OP MO No. 62.

14.9 In view of the intention of NDC Management and Board to utilize the FCIEI for the development of the former's project, it is worth mentioning that FCIEI has no personnel of its own and its liquid assets may be depleted soon. Using the six-year average operating cash flow of FCIEI, its audited cash balance amounting to P447,502, may only last for less than two years, as shown in Table 17:

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[46] NDC BOD at its Regular Board Meeting per Secretary Certificate dated January 16, 2025
[47] During NDC Subsidiaries Exit Conference held on February 3, 2025

Table 17 - Cash Flow from Operating Activities

Particulars	Balance (in PHP)
2019	(379,841)
2020	(60,653)
2021	(277,450)
2022	(288,243)
2023	(404,950)
2024	(127,204)
Average	(256,390)
Cash as of December 31, 2024	447,502
Cash flow ratio (in years)	1.75 years

14.10 The total assets of FCIEI are insufficient to cover its liabilities, resulting in a capital deficiency amounting to P8.818 million as of December 31, 2024. Meanwhile, the income of FCIEI is inadequate to cover its operating expenses.

14.11 FCIEI's prolonged dissolution adversely affects NDC's investment in FCIEI and will ultimately pose a financial burden to the former. The same will happen should the request for revocation of OP MO No. 62 be further delayed.

14.12 **We recommended that Management:**

a. **Reaffirm its position of requesting the revocation of OP MO No. 62, by sending the corresponding letter-request to the Office of the President of the Republic of the Philippines. Otherwise, continue the abolition of FCIEI, in accordance with OP MO No. 62; and**

b. **Provide the Audit Team with an update on its request for revocation of OP MO No. 62, or a quarterly report on the implementation of abolition of FCIEI, as the case may be.**

14.13 Management commented that Pursuant to NDC BOD's approval to request revocation of MO No. 62 from the Office of the President, NDC sent its letter-request for the said revocation through a Memorandum for the President (MFP) dated March 12, 2025, which includes the following requests:

a. Issuance of a new memorandum order:

   i.) Revoking MO No. 62 s. 2022;
   ii.) Directing the reactivation of FCIEI; and
   iii.) Directing the revival of FCIEI's operations

b. Directive to the Governance Commission for GOCCs (GCG) for the issuance of a memorandum order reactivating FCIEI and reclassifying it as an active GOCC; and

c. Performance of other acts as may be necessary to give effect to the above-stated purpose.

14.14 Moreover, the Office of the Deputy Executive Secretary for General Administration referred NDC's MFP to the GCG for appropriate action.

14.15 Pending the resolution of the MFP by the Office of the President, management would like to hold in abeyance the proceedings for the abolition of FCIEI. Management emphasized that the approval or non-approval of NDC's request for the revocation of MO No. 62 will greatly affect the entire liquidation process of FCIEI, especially on the transfer of FCIEI assets to NDC.

14.16 The Audit Team requested copies of correspondence between NDC and OP and/or the GCG to monitor Management's subsequent actions.

15. NDC's protracted acquisition of the 40 per cent share of Goodyear Phils. Inc. (GPI) in GY Real Estate Inc. (GYREI) limits the latter's earning potential, affecting its investment and GYREI's financial condition.

15.1 This is a reiteration of the prior year's audit observation with updated information.

15.2 On May 26, 1975, GPI donated 60 per cent of its undivided interest, right, and title to its two parcels of land to NDC. Thereafter, NDC and GPI executed a Deed of Transfer and Conveyance and conveyed their respective 60 and 40 per cent share in the two parcels of land, in exchange for fully paid shares of stock of GYREI. GYREI and GPI subsequently entered into a Contract of Lease on the subject parcels of land located in Almanza, Las Piñas, for a period of 25 years, renewable for another 25 years.

15.3 In November 2009, the Lease Contract, which expired on May 25, 2000, was renewed retroactive from May 26, 2000. However, GPI ceased its manufacturing operations in the country in October 2009. The lease contract was later terminated, effective April 25, 2011.

15.4 On May 19, 2011, GPI formally offered for sale its 40 per cent share during the GYREI special Board Meeting. Based on GYREI's Articles of Incorporation, GYREI or its nominee/s have the exclusive and preferential right and option to purchase the GPI shares. During the same meeting, GYREI nominated NDC as the buyer of GPI shares.

15.5 The NDC BOD approved and authorized the acquisition of GPI shares. On May 31, 2011, NDC notified GPI that they would exercise the option to purchase. However, NDC requested several extensions due to some matters that needed to be cleared. In a letter dated November 14, 2012, GPI denied NDC's request for extension with finality.

15.6 On June 1, 2018, GPI again advised NDC that they are selling all their shareholdings in GYREI. On September 27, 2018, GPI, through its broker, arranged a meeting with prospective buyers to discuss the approval process relative to the sale of GPI's shares, as well as NDC's position regarding such sale. Three real estate developers attended the meeting and are planning for a mixed-use development project on the land.

15.7 On August 7, 2019, GYREI received a letter from GPI relative to the offer of a real estate company to purchase all the shares of GPI. Accordingly, GPI raised the provision on the right of first refusal of GYREI or its nominee to purchase the said shares on the same terms and price offered by the real estate company.

15.8 On December 3, 2019, the NDC BOD approved the purchase of all GPI's shares in GYREI. The deadline for payment was on February 17, 2020, but was later extended until June 16, 2020, due to the effects of the COVID-19 Pandemic. However, considering the adverse effects of the pandemic, and government funds are expected to be utilized for its response, the NDC BOD let the NDC's option to purchase GPI's share to lapse.

15.9 However, on May 9, 2024, a Memorandum of Understanding was executed between NDC and GPI, relative to the share acquisition.

15.10 In a letter dated August 12, 2024, NDC expressed its intention and offered a price to purchase GPI's shares in GYREI. However, in a letter dated August 29, 2024, GPI made a counter-offer. As of December 31, 2024, NDC and GPI have yet to reach an agreement on the share acquisition.

15.11 For several years, NDC has committed to acquiring GPI's share, as observed in various correspondences. However, it is worth mentioning that as of December 31, 2024, NDC does not have enough liquid assets to purchase the GPI share, since most of its assets are investment properties.

15.12 Pending NDC's acquisition of GPI's shares, the GYREI Management secured the approval from its BOD to accept short-term leases on the property to generate additional income; however, it is still precluded from entering into long-term lease agreements, limiting its income-generating potential. This has adversely affected the condition and operations of GYREI. As of December 31, 2024, 154,924 square meters (sq. m.)[48] of the total land area of the GYREI property remains unutilized.

15.13 As of December 31, 2024, GYREI's net loss aggregated to P80.545 million[49] since CY 2011. Despite the increase[50] in business income, the CY 2024 business income amounts to P16.689 million[51] remain insufficient to cover its operating expenses[52].

15.14 Although GYREI was able to pay its interest expenses aggregating P1.141 million on July 2, 2024, covering the period from April 2022 to June 15, 2024, it was not able to repay the loan principal amounting to P22.500 million to NDC and GPI, which matured on June 15, 2024. Relative thereto, GYREI was granted a one-year deferral in payment.

15.15 The prolonged acquisition of GPI's 40 per cent share prevents the GYREI Management from entering into long-term lease agreements, which limits the

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[48] Total land area of 181,729 sq. m. less total area that were utilized 26,805 sq. m. (leased to 40 lessees; 18 lessees with one to three-year lease periods and 22 lessees with less than one-year lease period)
[49] Aggregate net loss of P101.469 million as of CY 2023 AAR + P20.924 million net income for CY 2024
[50] P6.252 million increase = (P16.689 million in CY 2024 - P10.437 million in CY 2023)
[51] The income from shares, donations and grants amounting to P22.558 million was not considered in the computations because this is a non-operational transaction
[52] P17.629 million total operating expenses for CY 2024, exclusive of the depreciation expense attributed to the shares, donations and grants

utilization of its property and earning capacity. Consequently, the limited operation of GYREI is disadvantageous to NDC as a stakeholder and the government in general.

15.16 **We reiterated our prior year's recommendations that Management expedite the purchase of GPI's 40 per cent share in GYREI. Thereafter, develop a concrete plan to maximize the utilization of the subject property, to improve the financial condition of GYREI for the best interest of the stakeholders and the government.**

15.17 Management commented that the GPI's counter-offer is beyond the NDC Board-approved amount. Management also emphasized that NDC was only authorized to transact and negotiate with GPI within the NDC-approved range of purchase price. NDC informed GPI that it had to go back to the NDC BOD for the approval of GPI's counter-offer.

15.18 Furthermore, NDC is currently crafting its plan and recommendation regarding the acquisition of GPI's shares in GYREI for presentation to the NDC BOD for approval.

15.19 The Audit Team will monitor Management's subsequent actions. On the other hand, in the event that the NDC BOD has made their decision or action plan, furnish the Audit Team a copy of the Board Resolution thereof.

16. NDC's prolonged acquisition of the 40 per cent share of GE Lighting Philippines, Inc. (GELP) in Pinagkaisa Realty Corporation (PRC), and the lack of a definitive plan of the latter on its unutilized sole investment property, is not in accordance with Section 2 (a) and (b) of Republic Act (RA) No. 10149[53], affecting NDC's investment and PRC's financial condition.

16.1 This is a reiteration of the prior year's audit observation with updated information.

16.2 Section 2 (a) and (b) of RA No. 10149 or the GOCC Governance Act of 2011 provides:

> *"SEC. 2. Declaration of Policy.—The State recognizes the potential of government-owned or -controlled corporations (GOCCs) as significant tools for economic development. It is thus the policy of the State to actively exercise its ownership. rights in GOCCs and **to promote growth by ensuring that operations are consistent with national development policies and programs**.*
>
> *Towards this end, the State shall ensure that:*
>
> *a) The corporate form of organization through which government **carries out activities is utilized judiciously**;*
>
> *b) The operations of GOCCs are rationalized and monitored centrally in order that **government assets and resources are used efficiently and the***

[53] An Act to Promote Financial Viability and Fiscal Discipline in Government-Owned or -Controlled Corporations and to Strengthen the Role of the State in its Governance Management to Make Them More Responsive to the Needs of Public Interest and for Other Purposes

government exposure to all forms of liabilities including subsidies is warranted and incurred through prudent means*;*

Xxx" (emphasis supplied)

16.3 With the termination of the American Parity Agreement on July 3, 1974, NDC acquired through absolute purchase a 60 per cent interest in the four parcels of land owned by the Philippine Electric Manufacturing Company (PEMCO), now GELP. On September 30, 1977, a Deed of Assignment and Transfer was executed by NDC and PEMCO, conveying their respective 60 per cent and 40 per cent undivided interest in exchange for fully paid shares of stock of PRC.

16.4 On November 14, 1977, PRC and PEMCO entered into a 25-year contract of lease for the former's lone investment property located at P. Domingo St., Makati City, with a total area of 17,320 sq. m. The lease commenced on October 1, 1977, and expired on September 30, 2002.

16.5 GELP ceased its manufacturing activities in CY 2004. Accordingly, GELP agreed to dispose of/sell the property; thus, PRC and GELP formed a negotiating team to discuss all the issues regarding the back lease/rental payments for the latter's continued use of the property from the time the contract expired. However, the sale did not materialize since GELP opted to renew its lease of the PRC property.

16.6 On July 4, 2011, the contract was renewed for 18 years and three months, commencing retroactively on October 1, 2002, and ending on December 31, 2020. On August 11, 2020, GELP requested for extension of the term of the contract to complete the decommissioning and remediation process on the leased property[54]. The PRC BOD approved the extension of the lease until March 31, 2022. Thereafter, another extension was approved, extending the lease term until December 31, 2022. GELP's payment of the lease continued until the turnover of the property.

16.7 On August 30, 2023, PRC and GELP executed a Lease Termination Agreement, and the former consequently issued an Acceptance Letter on the same date. PRC took possession of the leased property on August 31, 2023. Since its turnover, the property remains unutilized/idle. It appears that PRC Management had no concrete/definitive plan on the subject property in anticipation of the turnover. Nonetheless, the PRC Management, in its Reply to COA Audit Observation Memorandum, expressed that they are in talks with potential lessee/s of the property while waiting for NDC's directive and long-term plans.

16.8 In a letter dated July 5, 2024, NDC, considering that the subject property is of significant value and importance, expressed its intention to acquire GELP's 40 per cent share for the amount initially offered by the latter.

16.9 It is worth mentioning that NDC also intends to acquire the 40 per cent share of Goodyear Phils. Inc. in GY Real Estate, Inc., another subsidiary of NDC. However,

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[54] Section 15.1 of the contract of lease provides that two years prior to surrendering the leased premises to the lessor, the lessee shall conduct, at its own expense and cost, an Environmental Site Assessment to determine the presence of any contaminants on the soil or groundwater that might be attributable to the lessee.

Management is still in the process of evaluating the price of the share and funding requirements, among others. In this regard, the purchase of the 40 per cent share of GELP in PRC may pose a possible liquidity risk for NDC, considering that the latter does not have enough liquid assets to purchase both shares, since most of its assets are investment properties. Moreover, these investment properties are not readily disposable, and some have various legal issues.

16.10 PRC has been without a source of income since August 31, 2023, while incurring Security Services and Real Property Tax expenses aggregating P1.650 million in CY 2024. Analysis of the PRC's Financial Statements as of December 31, 2024, shows a decrease of P1.904 million in its current assets and a net loss amounting to P1.877 million.

16.11 Depending on the immediate and definitive plans/actions of NDC Management to address the issues above, the continued non-generation of income by PRC resulted from the ineffective and inefficient use of government funds and resources, which is not in accordance with Section 2 (a) and (b) of RA No. 10149, thereby affecting NDC's investment and PRC's financial condition.

16.12 **We reiterated our prior year's recommendation that Management provide a clear plan regarding its impending acquisition of 40 per cent share of GELP in PRC, and outline a comprehensive strategy for the sustainable operation and profitability of PRC.**

16.13 Management commented that the NDC's formal offer to acquire GELP's shares in PRC, which was previously deemed acceptable by the former GELP representatives, was subsequently declined due to changes in GELP's leadership.

16.14 As a result, negotiations have reverted to their initial stages, and the current management is undertaking a reassessment of the matter. Given the significant amount of money involved in the acquisition of GELP's shares and the liquidity of NDC's assets, NDC has to be prudent in the utilization of its funds, considering all its priority projects.

16.15 Moreover, PRC Management is actively looking for tenants for its 1.7-hectare property in Makati City in order to support its operations.

16.16 The Audit Team will monitor Management's subsequent actions.

17. The NDC has yet to reactivate the status of NDC Philippine Infrastructure Corporation (NPIC) with the Governance Commission for GOCCs (GCG), despite the former's plan to use the latter as a corporate vehicle for its projects; prolonging NPIC's non-operation for 17 years is not in accordance with Section 2 (a) and (b) of RA No. 10149, resulting in the poor utilization of NDC's investment in its wholly-owned subsidiary.

17.1 This is a reiteration of the prior year's audit observation with updated information.

17.2 NPIC was incorporated on January 27, 2005, and was primarily created to develop, package, structure, and/or manage investments in infrastructure projects and commercial ventures related to the development of infrastructure in which the NDC, its parent company, wishes to participate and invest. On May 13, 2009, however, the NPIC BOD resolved to shorten NPIC's term of existence until July 31, 2009.

17.3 During the Aquino Administration (2010-2016), Public-Private Partnership (PPP) became the priority agenda; thus, the former NDC Chairman decided to put on hold the dissolution of NPIC, as it may be used as a vehicle in the implementation of the PPP program of the government. In this regard, NPIC was not among the NDC subsidiaries recommended for dissolution in a meeting between the NDC officers and the Commissioners of the GCG.

17.4 In 2013, GCG submitted recommendations to the Office of the President (OP) of the Republic of the Philippines for the dissolution of several Government-Owned and Controlled Corporations (GOCCs), which included NPIC, due to non-performance and/or being unnecessary. Relative thereto, in a Press Release dated March 2, 2014, and in the Official Gazette dated March 3, 2014, NPIC was among the 19 GOCCs recommended for abolition under House Bill No. 3807.

17.5 The former NDC Chairman requested reconsideration from the GCG for the continuance of NPIC's existence and provided justifications for its retention to the OP. As a result, the OP retained the existence of NPIC. However, NPIC was neither tapped as a vehicle in the implementation of PPP projects nor in any other government infrastructure projects.

17.6 In 2018, the GCG classified NPIC as a non-operational/inactive GOCC[55].

17.7 In a Regular Board Meeting held on July 6, 2018, the NDC BOD approved the establishment of the first commercial multi-purpose Gamma Irradiation Facility (GIF). On August 1, 2019, a Memorandum of Agreement (MOA) was executed between NDC and the Philippine Nuclear Research Institute to collaborate in the establishment of the GIF, with the latter providing technical expertise and assistance. Accordingly, NDC will use NPIC to implement the project. However, no significant development has yet been made.

17.8 On June 14, 2023[56], NDC Management commented that the plan is for NPIC to become a holding company for all infrastructure projects of NDC, as creating a new corporation would be difficult.

17.9 However, on January 17, 2024[57], the NPIC Management stated that reactivating the Corporation or even amending its Articles of Incorporation was not pursued due to the tedious process involved.

17.10 On May 29, 2024[58], NDC Management commented that NDC is negotiating with certain Government Financial Institutions (GFIs) to partner with or enter into joint ventures to pursue innovation, power, food security, and cybersecurity projects. The

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[55] As of July 29, 2024, NPIC is still classified as non-operational/inactive/deactivated.
[56] During the CY 2022 NDC Exit Conference
[57] During the CY 2023 NDC Subsidiaries Entrance Conference
[58] Management reply to Audit Observation Memorandum No. 2024-03 (2023)

same comment was observed in the Agency Action Plans and Status of Implementation[59].

17.11 However, with the recent change in NDC's administration[60] NPIC's operation reverted to the status quo.

17.12 To date, there are no significant developments in the GIF Project, as well as with the supposed negotiations with GFIs. Also, the Management of NDC and NPIC have yet to undertake proactive steps to reactivate NPIC in preparation for these projects.

17.13 The non-pursuance of the reactivation of NPIC, to prepare it for projects that NDC will venture on, conflicts with Management's expressed intention to use the former as a corporate vehicle for the latter's projects.

17.14 As of December 31, 2024, NPIC has a net asset of P52.441 million, which has been practically dormant for the past 17 years, and the uncertainty surrounding the status of NPIC is hindering the maximization of its currently dormant assets and resources, which are expected to generate more income and projects.

17.15 Furthermore, NPIC's activity merely revolves around investing in money market placements, which function is not even the primary purpose for which it was created. Thus, its resources are underutilized. The underutilization of NDC's investment in NPIC is deemed disadvantageous to the government and the public in general.

17.16 NPIC, being non-operational and its unresolved status since it ceased operations in 2008, is not in accordance with Section 2 (a) and (b) of RA No. 10149, which provides that the state recognizes GOCCs as significant tools for economic development. Thus, it is imperative that the NDC's investment be utilized judiciously and efficiently.

17.17 **We reiterated our prior year's recommendations that Management:**

a. Reaffirm its position and act decisively, whether to pursue its reactivation or to continue its dissolution; and

b. Formulate concrete plans and realizable projections on the use of NPIC to avoid further stagnation of its assets and resources to ensure judicious and efficient utilization.

17.18 Management commented that NDC has been actively and prudently exploring viable ventures to maximize NPIC's resources. Under its new Management, NDC is currently assessing NPIC's capacity as a fund management platform for raising capital while attaining its mandate in managing investments in infrastructure projects and commercial ventures related to the development of infrastructure in which NDC wishes to participate or invest.

[59] As of August 26, and November 30, 2024

[60] Former NDC General Manager tendered his resignation effective November 15, 2024. An Officer-in-Charge was appointed in the interim. The OP appointed an Acting General Manager effective December 2, 2024.

17.19 The recent development is yet to be further discussed by NDC Management, which will be recommended to the NDC BOD for approval and/or direction.

17.20 NDC Management added that it is cognizant of NPIC's current status and the need to utilize and maximize the latter's assets and resources in realizing the purposes for which it has been established. Relative thereto, notwithstanding the change in NDC's administration, NDC will continue to devise viable plans/proposals in fulfilling NPIC's potential.

17.21 The Audit Team will monitor Management's subsequent actions. On the other hand, in the event that the NDC BOD made their decision or action plan, furnish the Audit Team a copy of the Board Resolution thereof.

18. The balances of the car and housing loans granted to former NDC officials and employees aggregating P0.822 million and P5.733 million, respectively, remained outstanding/dormant with varying periods from seven to 26 years, due to the passive action of Management.

18.1 This is a reiteration of the prior year's audit observation with updated information.

18.2 The car loan balance, pertaining to the outstanding loan of three former NDC officials who were separated from the NDC for more than a decade, remains dormant for 12 to 26 years. The last correspondence by Management to these officials was sent on February 3, 2020. Table 18 shows the summary of the outstanding car loan balances:

Table 18 - Outstanding Car Loan

Borrowers	Date of loan granted	Employment Status	No. of Years Dormant	Outstanding Balance
Official 1	August 31, 1993	Former NDC Director	26	378,000
Official 2	October 14, 1999	Retired on October 20, 2003, and availed of the NDC retirement package under Executive Order No. 184.	20	171,212
Official 3	April 2007	Resigned on April 30, 2009	12	273,113
Total				**822,325**

18.3 The balances of the car loans of these former officials were not collected prior to the issuance of their clearances, yet the motor vehicles were not returned or surrendered. Instead of charging the unpaid loans against their retirement or separation pay, the NDC agreed to accept an acknowledgment of outstanding loans and post-dated checks issued by the former officials.

18.4 Records indicate that in CY 2018, the NDC sent a letter to the Office of the Government Corporate Counsel (OGCC) to follow up on the request for the status of car loan receivables from Officials 1 and 2. Additionally, Management met with Official 3 to reconcile his outstanding balance. However, the car loan balances have remained dormant to date.

18.5 On the other hand, in CY 2019, NDC foreclosed the mortgaged property of one housing loan borrower and received full payment from another borrower. Additionally, in CY 2024, full payment was received from one of the borrowers. Meanwhile, another borrower, which was previously classified as delinquent, resumed her payment. Details of delinquent accounts as of December 31, 2024, are as follows:

Table 19 - Outstanding Housing Loan

Employee No.	Date of loan granted	Status of Loans	Years Dormant	Outstanding Balance
1	September 1998	Case is on going	25	302,848
2	August 2000	With Certificate of Sale dated Nov. 25, 2021	21	406,539
3	August 1998	With Certificate of Sale dated June 4, 2020; Awaiting for the transfer of Title to NDC name	20	298,519
4	April 1999	For filing of claims against the estate, to be referred to OGCC	20	450,260
5	October 2001	For filing of extrajudicial foreclosure	19	372,201
6	October 1999 and October 2003	For filing of extrajudicial foreclosure	19	179,264
7	May 1996	For filing of extrajudicial foreclosure	19	134,070
8	October 2002	For filing of extrajudicial foreclosure	18	287,613
9	March 1999	For filing of extrajudicial foreclosure	15	120,738
10	March 2000	For filing of extrajudicial foreclosure	11	142,749
11	July 1999	For filing of extrajudicial foreclosure	11	199,303
12	July 2006	For filing of extrajudicial foreclosure	10	1,440,576
13	1999	For filing of claims against the estate; to be referred to the OGCC.	8	322,780
14	September 1995 and March 1998	For filing of extrajudicial foreclosure	7	167,767
15	December 1999	For filing of extrajudicial foreclosure	7	265,190
16	June 2001	For filing of extrajudicial foreclosure	7	378,597
17	May 1998	For filing of extrajudicial foreclosure, payments amounting to P89,285.71 in CY 2022 were all applied to penalties.	7	264,277
				5,733,291

18.6 The foregoing status of the delinquent accounts was derived from the NDC's Status Report of Unliquidated Cash Advances, Fund Transfers, and Other Receivables for the second semester of CY 2024. However, there were no updates/changes in the status of 17 delinquent employees as compared to the status reports submitted in CYs 2022 and 2023.

18.7 We acknowledged the efforts of Management in recovering the loans granted to former employees; however, Management should exert more effort in the recovery and collection of said loans. These loan receivables, once collected, can be used as additional funds for NDC's operations. Further, the Legal Department, with the assistance of the OGCC, can expedite foreclosure proceedings on mortgaged properties and employ other legal remedies for the eventual resolution of the unpaid Car and Housing loans.

18.8 **We reiterated our prior year's recommendations that Management:**

a. **Require the Legal Department to expedite the initiation of foreclosure proceedings and/or of claims against the estates, for defaulting former NDC officials and employees;**

b. **Expedite acquisition of properties and transfer of titles under NDC's name for the two accounts (Employees 2 and 3) with a certificate of sale; and**

c. **Submit an updated status/monitoring report to the Audit Team regarding the car and housing loan accounts, and support with copies of demand letters, pleadings, and court orders/decisions, and/or other pertinent documents.**

18.9 Management commented that the Legal Department is exerting its utmost effort to file and foreclose the mortgage on the properties of the NDC officials and employees who have been remiss in their obligations to pay their loan within the period agreed upon in their Loan Agreement. Also, the Legal Department will expedite the filing of petitions to foreclose the mortgage on the properties, and other legal remedies for the eventual resolution of the unpaid Housing and Car Loans.

18.10 Accordingly, they have already sent Demand Letters to defaulting former NDC officials and employees and have prepared a draft Petition for Extrajudicial Foreclosure of Mortgage as well.

18.11 The Audit Team acknowledged the efforts of Management in recovering the loans granted to former employees. We will monitor Management's subsequent actions.

19. The cost of continuous repair and maintenance of six motor vehicles (MV) amounting P467,425 and P171,580 for CYs 2024 and 2023, respectively, exceeded 30 per cent of the current market price (CMP) of vehicles of the same make and model, thus, deemed excessive expenditure as defined under Commission on Audit (COA) Circular No. 2012-003.

19.1 Section 5 of COA Circular No. 2012-003 dated October 29, 2012 defines "excessive expenditure" as follows:

> *"The term "excessive expenditures" signifies unreasonable expense or expenses incurred at an immoderate quantity and exorbitant price. It also includes expenses which exceed what is usual or proper, as well as expenses which are unreasonably high and beyond just measure or amount. They also include expenses in excess of reasonable limits."*

19.2 Annex "D" of the same COA Circular enumerates some of the cases that are considered "Excessive" expenditures of government funds where Item 2 states that "payment for repair of government equipment at a cost exceeding 30 per cent of the current market price of the same or similar equipment."

19.3 Review of Disbursement Vouchers and supporting documents showed that the continuous repair of six NDC MVs in CY 2023 to 2024 ranges from six to 11 times for a total accumulated cost of P0.639 million. The cost of repairs exceeded 30 per cent of the CMP of the same or similar equipment by P159,005, as shown in Table 20:

Table 20 - MV Repairs for CYs 2024 and 2023

	NDC Service Vehicle	Cost of Repairs		Total Repair Cost	CMP	30% of CMP	Excess over 30%	Frequency of Repairs
		CY 2024	CY 2023					
		(A)	(B)	(C=A+B)	(D)	(E=.3XD)	(F=C-E)	
V1	2008 Isuzu Crosswind Sprotivo	52,400	18,510	70,910	200,000	60,000	10,910	**6**
V2	2006 Toyota Innova	70,735	45,290	116,025	200,000	60,000	56,025	**10**
V3	2013 Hyundai Starex	119,410	20,810	140,220	300,000	90,000	50,220	**11**
V4	2015 Toyota Innova	67,090	38,280	105,370	300,000	90,000	15,370	**10**
V5	2015 Toyota Vios	88,200	21,890	110,090	300,000	90,000	20,090	**8**
V6	2010 Mitsubishi Strada	69,590	26,800	96,390	300,000	90,000	6,390	**8**
		467,425	**171,580**	**639,005**		**480,000**	**159,005**	

19.4 Further, the Audit Team calculated the fuel efficiency of the five NDC MVs, based on the Vehicle Monitoring Sheet, Driver's Trip Tickets, and other related documents provided, as shown in Table 21. It revealed that the fuel efficiency of each vehicle is below the normal average of motor vehicles of the same or similar make and model.

Table 21 - Fuel Efficiency

Year	Particulars	V1	V2	V3	V4	V5
2023	Calculated Fuel Consumption (distance covered in kilometer /1 liter of fuel)	9.871	6.205	6.893	6.016	7.204
2024	Calculated Fuel Consumption (distance covered in kilometer/1 liter of fuel)	7.465	5.396	6.199	6.778	6.680
	Fuel efficiency of MV of the same make and model (km/l)	10 – 12	7 – 11	7 – 11	7 – 11	8 – 13

19.5 Several factors affect the low fuel efficiency of the said MVs, (a) frequent repairs, (b) frequent decrease of engine oil for V1 & V3, and (c) MVs faulty components due to ordinary wear and tear.

19.6 The Audit Team also conducted a visual inspection and test drive of V1 and observed the following:

a. Its engine power is not normal compared to vehicles of the same or similar make and model; and

b. Its engine leaks oil, indicating damage.

19.7 Currently, of the six MVs, V1 & V2 are temporarily unserviceable due to various major defects and frequent breakdowns.

19.8 On the other hand, the two-year accumulated repairs of V2 already exceeded 50 per cent of the CMP. Annex "C" of the same COA Circular enumerates some of the cases that are considered "Unnecessary" expenditures of government funds, where Item 11 states that *"continuous repair of vehicles and equipment already considered* *beyond economic repair as evidenced by frequent breakdown and non-use after repair."*

19.9 The Revised Manual on the Disposal of Government Properties defined the term "*beyond economic repair*" [61] as follows:

> *"**Beyond Economic Repair** - when the cost of repair and maintenance becomes prohibitive and disadvantageous to the government, such that it would exceed 50% of its current market value and considering such factors as:*
>
> - *Maintenance expense*
> - *Downtime*
> - *Replacement cost of spare parts*
> - *Frequency of breakdown*
> - *Alternative modes, such as rental of equipment or outright replacement"*

19.10 Further, the Revised Manual also defined current market value as:

> *"**Current Market Value** - the price estimated which the properties will bring if exposed for sale in the open market, allowing reasonable time to find a buyer who buys with knowledge of the actual condition and utility of the properties."*

19.11 The CMP used in Table 20 is different from the current market value (CMV) as defined in the Joint Circular, such that the former is based on the fair value of the same or similar vehicle, while the latter is the fair value of the subject vehicle. The CMV of NDC MVs could be lower, considering that the CMP obtained by the Audit Team is from vehicles in better condition.

19.12 Inquiry with the Management disclosed that NDC does not have a comprehensive regular evaluation/analysis on the physical condition of MVs, especially the old ones, resulting in continuous repairs. Considering the defects observed, frequency and cost of repairs and maintenance, physical condition of V1 and below-average fuel efficiency of the five MVs, it appears that Management needs to evaluate the cost-effectiveness of continuous repair and maintenance as compared to disposing of the assets.

19.13 **We recommended and Management agreed to:**

a. Conduct a detailed evaluation on the physical condition of the six NDC MVs above-mentioned, consider the appraisal of the MVs to determine the CMP of each vehicle, and evaluate the cost-effectiveness of continuous repair and maintenance; and

b. Henceforth, monitor regularly the overall condition of NDC MVs to determine the propriety of future repairs and maintenance. Dispose of the motor vehicles in accordance with COA-DBM JC No. 2024-1, if warranted.

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[61] COA-DBM Joint Circular (JC) No. 2024-1 dated January 30, 2024 – Revised Manual on the Disposal of Government Properties

20. The propriety of several disbursements charged against the Meeting/Planning and Conference Expense (MPCE), and Extraordinary and Miscellaneous Expense (EME), which were not in compliance with Section 4 of Presidential Decree (PD) No. 1445 and COA Circular No. 2012-001, due to lapses in internal control and procedures, could not be ascertained.

20.1 This is a reiteration of the prior year's audit observation with updated information.

20.2 Management conducted various meetings and other activities inside and outside the office with meal charges, which were either reimbursed through the petty cash fund of various accountable officers or reimbursed directly to NDC. For CY 2024, NDC incurred P4.075 million worth of meals and snacks charged against the MPCE account and P0.974 million for EME. It was observed that once NDC officers exhausted their allocation for EME, their succeeding reimbursements were charged against the MPCE account.

20.3 Audit of disbursements pertaining to meal and other expenses charged against the MPCE and EME accounts disclosed the following lapses in NDC's internal control and procedures:

a. Charges against EME aggregating P144,939.05 incurred during weekends, suspended workdays, and beyond office hours

i.) The Audit Team noted that several meal expenses were spent during weekends, suspended workdays, and beyond office hours. These disbursements were charged against the EME of NDC officers; however, no other documents were attached to support the validity of such reimbursements.

ii.) Also, the Audit Team noted some deficiencies which cast doubt on the validity of meal expenses as to whether these were actually disbursed in the discharge of official functions and duties of the NDC officers, as enumerated hereunder

- Three disbursements on February 4, 2024, Sunday, have transaction times of 1:34 p.m., 1:37 p.m., and 1:52 p.m., but these were incurred in Quezon City, San Juan City, and Quezon City, respectively. It is physically impossible to travel and dine in between the two cities within a time frame of 18 minutes and travel back again for refreshments;

- Several invoices showed the names of customers with senior citizen discounts; and

- One transaction was supported by a Billing Statement only.

iii.) The transactions enumerated above were only supported with invoices; thus, documents were deemed insufficient to prove that these were disbursed in the performance of official function, given the circumstances enumerated above.

iv.) The Audit Team acknowledges that there may be meetings and other activities conducted beyond office hours and on weekends, and maybe holidays and suspended workdays. However, considering that these transactions were not made on a regular working day and within regular working hours, it does not benefit from the presumption of regularity. Hence, the absence of documents and evidence to support that these meetings were made in the conduct of official government business, the validity and propriety of these disbursements are doubtful.

b. Propriety of various disbursements charged against EME could not be ascertained:

i.) Examination and verification of information from available documents cast doubt on the propriety of expenses, as to whether these were actually disbursed in the discharge of official functions and duties of the NDC officers, as discussed hereunder.

- Invoices from outside Metro Manila were observed to be inconsistent with the remarks per DTR of the officer. Accordingly, one disbursement was incurred in La Union while the officer was in a work-from-home arrangement. Also, four disbursements were incurred in Tagaytay City, Cavite, and Sta. Rosa, Laguna, while the DTR and Driver's Trip Ticket showed that the officer attended a Contract Signing Event at Ayala Circuit;

- Disbursements made in a KTV in Makati City, in which details of ordered food and drinks are not available in the manual OR. Given the nature of these establishments, there is a possibility of purchase of alcoholic drinks in the disbursement/transaction contrary to COA Circular No. 2012-003. Further, examination of Driver's Trip Ticket showed that no other destination located in Makati City was indicated, except the NDC, during the date of disbursements. Also, the operational hour of the KTV starts at 5:00 p.m. which is not within the normal office hours. Two other invoices came from an establishment primarily serving liquor. Related thereto, review of Driver's Trip Tickets showed that the addresses of these establishments were not indicated in the destination of the officers; and

- Various invoices showed senior citizen customers, whereas the officer claiming the reimbursement, who is likewise a senior citizen, is not indicated in the invoices. A similar case was noted on various dates, including weekends, thus showing the same pattern as discussed in Paragraph 20.3 (a), reimbursement thereof does not enjoy presumption of regularity.

20.4 The Audit Team also noted that there were various meetings charged against MPCE conducted in restaurants inside 3-star and 5-star hotels. These meetings are the workgroup's operational review meetings and meetings regarding some NDC subsidiaries, which can be conducted within the office premises. Likewise, meeting attendees are mostly from among NDC personnel. Various meals charged against EME of respective officers were incurred in restaurants located in 3-star and 5-star hotels as well. However, the details and purpose of these expenses could not be determined since each reimbursement was supported only by an invoice.

20.5 In view of the above audit observations, it appears that the Accounting Unit (AU) does not strictly observe the provisions set forth in PD No. 1445 and relevant COA Circulars and other applicable laws, rules, and regulations.

20.6 Section 4 of PD No.1445 provides that:

> *"**Section 4.** Fundamental principles. Financial transactions and operations of any government agency shall be governed by the fundamental principles set forth hereunder, to wit:*
>
> *(1) Xxx.*
> *(2) Government funds or property shall be spent or used solely for public purposes.*
> *(3) to (5) Xxx.*
> *(6) Claims against government funds shall be supported with complete documentation.*
> *(7) All laws and regulations applicable to financial transactions shall be faithfully adhered to.*
> *(8) Generally accepted principles and practices of accounting as well as of sound management and fiscal administration shall be observed, provided that they do not contravene existing laws and regulations."*

20.7 In the same tenor, COA Circular No. 2012-001 provides that:

> *"**General Requirements for All Types of Disbursement***
>
> 1. *Xxx*
> 2. *Xxx*
> 3. *Legality of transaction and conformity with laws, rules or regulations*
> 4. *Xxx*
> 5. *Sufficient and relevant documents to establish validity of claim."*

20.8 The absence of documents to substantiate the above-noted transactions and the incurrence of expenditures without adhering to established laws, rules, and regulations casts doubt on the validity, propriety, and legality of the transactions. It should be noted that, although some disbursement transactions do not specify the required supporting document, COA Circular No. 2012-001 states that the general requirements for all types of disbursement, including EME, require sufficient and relevant documents to establish the validity of the claim.

20.9 Relative thereto, Section III, paragraph 3 of COA Circular No. 2006-001 provides that the claim for EME shall be supported by receipts and/or other documents evidencing disbursement. Further, strict adherence to established laws, rules, and regulations is imperative to ensure that government funds or property shall be spent or used solely for public purposes.

20.10 Assessment of the adherence to the basic principle that government funds shall be spent solely for public purposes could not be made if disbursements are not adequately supported, more so when the purpose is not even indicated. The documentary requirements need not be exhaustively enumerated in the COA Circular, as it is already a basic principle that disbursements must be properly supported.

20.11 It is worth noting that a similar observation was raised in prior year's audit to call the attention of the Management and to take necessary action thereto. Examination of the above transactions showed that most disbursements were made prior to the issuance of the said Audit Observation Memorandum (AOM) and the conduct of the exit conference. Although there are still a few transactions that were incurred after the issuance of the AOM that are not compliant with PD No. 1445 and related COA Circulars, the Audit Team acknowledges the actions taken by Management to mitigate, if not fully prevent, similar transactions from occurring.

20.12 **We reiterated our prior year's recommendations that Management:**

a. **Establish propriety and validity, and provide sufficient justifications or supporting documents on disbursements incurred during weekends, suspended workdays, and beyond office hours. Require the concerned officers to refund the amount pertaining thereto, should the disbursement not be related to the performance of official functions and duties;**

b. **Establish the propriety and validity, and provide justifications or supporting documents on disbursements discussed in Paragraph 20.3 (b). Otherwise, require the concerned officers to refund the amount pertaining thereto;**

c. **Observe prudent and judicious use of funds during meetings that can be conducted in the Office premises. Refrain from conducting regular workgroup meetings outside the office premises, especially in restaurants in 3-star or 5-star hotels; and**

d. **Formulate a strict and comprehensive policy as regards reimbursement of expenses of officers and employees to address the above-noted observations, and to ensure prudent and judicious use of government funds. Furnish the Audit Team a copy thereof.**

20.13 Management commented that COA Circular No. 2012-001 specifically states that the guidelines for Government-Owned and Controlled Corporations' (GOCCs) EME are prescribed under COA Circular No. 2006-001 dated January 3, 2006, and entitled "Guidelines on the Disbursement of Extraordinary and Miscellaneous Expenses and other similar expenses in government-owned and controlled corporations/government financial institutions and their subsidiaries.

20.14 COA Circular No. 2006-001 states that EME shall cover extraordinary and miscellaneous expenses and other similar expenses, such as discretionary, business development expenses, representation expenses, and the like, provided that the nature and purpose of the said expenditures pertain to any of the following:

a. meetings, seminars, and conferences;
b. official entertainment;
c. public relations;
d. educational, athletic, and cultural activities;
e. contribution to civic and charitable institutions;
f. membership in government associations;

g. membership in professional organizations duly accredited by the Professional Regulation Commission;
h. membership in the Integrated Bar of the Philippine;
i. subscription to professional technical journals and informative magazines, library books and materials; and
j. other similar expenses not supported by regular budget allocation.

20.15 The Circular further provides that the above enumeration is not exclusive and shall not prevent the inclusion of other similar disbursements which may be categorized as extraordinary and miscellaneous expenses within its contemplation.

20.16 The Circular likewise provides the following audit guidelines:

a. The amount of EME as authorized in the corporate charters of GOCCs/ Government Financial Institutions, shall be the ceiling in the disbursement of these funds;
b. Payment of these expenditures shall be strictly on a non-commutable or reimbursable basis;
c. The claim for reimbursement of expenses shall be supported by receipts and/or the documents evidencing disbursements; and
d. No portion of the amounts appropriated shall be used for salaries, wages, allowances, intelligence, and confidential expenses which are covered by separate appropriations.

20.17 However, the Circular does not provide the specific documentation required. The documentary requirements are found in COA Circular No. 2012-001:

a. Invoices/receipts for GOCCs;

b. Receipts and other documents evidencing disbursement, if there are available, or **in lieu thereof, <u>certification executed by the official concerned</u> that the expense sought to be reimbursed have been incurred for any of the purposes contemplated under the provisions of the General Appropriations Act (GAA) in relation or by reasons of his position; and**

c. Other supporting documents as are necessary, depending on the nature of the expense charged.

20.18 Management reiterated their response to earlier AOMs that NDC followed the aforementioned audit guidelines and provided the necessary documentation prescribed under the guidelines. Requiring additional documents to prove that there is no irregularity in every transaction is burdensome and counterproductive and defeats the purpose of the Extraordinary and Miscellaneous Expenses.

20.19 Management emphasized that under COA Circular No. 89-300, *"the underlying principle behind the provision for authority to use appropriations for extraordinary and miscellaneous expenses recognizes the need to grant some form of assistance to officials occupying key positions in the National Government to enable them to meet various financial demands that otherwise would not have been made on them. Verily, by reason of their incumbency to these positions, they have to incur expenses of the sort which are not normally charged to or covered by their salaries and other* *emuloments. **These officials should thus be accorded as much flexibility as possible in the utilization of the funds involved, subject to limitations imposed by law**."*

20.20 Moreover, Management pointed out that under the Governance Commission for GOCCs CPCS Circular No. 2021-013, EMEs are considered as **indirect compensation** to the entitled officers/employees. Moreover, in case of deficiency, the requirement for the enumerated purposes of EME shall be charged against available allotments of the GOCC concerned. Such circular prescribes the same principles and policies as the aforementioned COA Circulars.

20.21 <u>On the EME charges incurred beyond office hours.</u> As previously emphasized in Management's discussion of applicable COA Circulars, particularly COA Circular Nos. 2006-001 and 2012-001, there is no explicit provision limiting the incurrence of EMEs strictly within official working hours. It is thus perplexing why the audit observation imposes an additional requirement that appears inconsistent with both the intent and flexible nature of EME.

20.22 Management commented that officials and officers, particularly those in key positions, frequently perform their duties beyond regular working hours, including weekends and holidays. These hours are not typically captured by the DTR, which does not accurately reflect the extent of actual work rendered by senior officials. Unlike rank-and-file employees, officers are not entitled to overtime pay and are expected to remain responsive to the exigencies of service at all times.

20.23 Furthermore, official functions such as meetings, conferences, and business engagements may occur after hours or during non-working days, especially in cases where scheduling must accommodate multiple stakeholders, including external partners, private sector counterparts, or representatives from other government agencies. It is also worth noting that work suspensions due to weather or emergency declarations do not automatically equate to the cancellation of official duties or commitments.

20.24 In such cases, officers concerned have submitted certifications, as required under COA Circular No. 2012-001, affirming that the expenses were incurred in the performance of their duties and for purposes consistent with the authorized uses of EME. These certifications are executed in good faith and should carry the presumption of regularity. To reject such expenditures solely on the basis of their being incurred outside official hours, despite adequate documentation, may be seen as overly restrictive and contrary to the spirit of the Circulars, which recognize the need for flexibility in the use of such funds.

20.25 <u>On officers claiming reimbursements with senior citizen discount</u>. No circular was ever issued by the government against entertaining/meeting guests who are senior citizens and availing of senior citizen discount, regardless of whether such officer is a senior citizen or not. Such discounts can only be availed by presenting the Senior Citizen Discount Card. In some transactions, a senior citizen officer forgot to bring his ID Card and was not able to avail of the discount.

20.26 Management affirmed its commitment to upholding fiscal discipline and compliance. Measures will also be instituted to prevent the recurrence of similar instances in the future, such as reiterating procurement and reimbursement guidelines during official functions and activities.

20.27 The Audit Team maintains its position on the requirement of additional supporting documents. Contrary to Management's view that requiring additional documents to prove that there is no irregularity in every transaction, is burdensome and counterproductive, and likewise defeats the purpose of the EME, the Audit Team, however, would like to reiterate that under COA Circular No. 2006-001, the claim for reimbursement shall be supported by receipts and/or other documents evidencing disbursements. In the case entitled PSALM vs COA[62], the Supreme Court held that:

> *"Assuming arguendo that PSALM is authorized to incur and claim BDE, it may only do so when the **conditions set forth in COA Circular No. 2006-001 are met.** This is clear from the last paragraph of the 2008 GAA stating that "**these expenditures shall be subject to pertinent accounting and auditing rules and regulations**." **The validity and correctness of the claim for reimbursement of EME or other similar expenses of GOCCs, like PSALM, must be clearly established**. Simply put, PSALM's claims for reimbursement of BDE, if at all allowed, **must rest upon the existence of sufficient proof of the expenditures incurred by the qualified officials such as receipts and/or other documents evidencing disbursement**. **While petitioners presented receipts to support their claim for BDE reimbursement, they failed to establish the nature and description of these expenditures**."* (emphasis supplied)

20.28 Also, Management's application of COA Circular No. 89-300, as regards the underlying principle behind the issuance of the said Circular, is incorrect. COA Circular No. 2006-001 explicitly states:

> *"Governing boards of government-owned and controlled corporations/government financial institutions are invariably empowered to appropriate through resolutions such amounts as they deem appropriate for extraordinary and miscellaneous expenses. **Previous circulars issued by this Commission pursuant to its constitutional mandate to promulgate accounting and auditing rules and regulations governing such expenses, however, clearly and categorically pertain to <u>national government agencies only</u>. There is a need, therefore, to prescribe rules and regulations specifically for <u>government corporations</u> to regulate the incurrence of these expenditures** and ensure the prevention or disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures or uses of government funds."* (emphasis and underscoring supplied)

20.29 The Audit Team is also not persuaded that NDC officials should be accorded as much flexibility as possible in the utilization of the funds involved, subject to limitations imposed by law. As provided above, the Management's application of COA Circular No. 89-300 is incorrect since it is applicable to National Government Agencies only. In ARNALDO M. ESPINAS, LILLIAN N. ASPRER, and ELEANORA R. DE JESUS vs.

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[62] G.R. No. 211376 dated December 07, 2021

COMMISSION ON AUDIT[63], the Supreme Court thoroughly and clearly discussed the difference between the applications of COA Circular Nos. 89-300 and 2006-001, the difference between the NGAs and GOCCs, why certification is insufficient, and the COA's constitutional authority to promulgate accounting and auditing rules and regulations. To reiterate further, the Supreme Court held:

"The Commission Proper's Ruling

Xxx.

Finally, the CoA maintained that there is a substantial distinction between the officials of NGAs and the officials of the GOCCs, GFIs and their subsidiaries insofar as their entitlement to EME is concerned. Xxx. In connection therewith, the CoA emphasized that the issuance of CoA Circular No. 2006-01 is pursuant to its exclusive constitutional authority to promulgate accounting and auditing rules and regulations, including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures or uses of government funds. ***It is therefore within the purview of its mandate and the above-stated distinctions that CoA Circular No. 2006-01 must be interpreted****.*

Xxx.

The Court's Ruling

Lastly, the Court upholds the CoA's finding that there exists a substantial distinction between officials of NGAs and the officials of GOCCs, GFIs and their subsidiaries which justify the peculiarity in regulation. ***Since the EME of GOCCs, GFIs and their subsidiaries, are, pursuant to law, allocated by their own internal governing boards, as opposed to the EME of NGAs which are appropriated in the annual GAA duly enacted by Congress, there is a perceivable rational impetus for the CoA to impose nuanced control measures to check if the EME disbursements of GOCCs, GFIs and their subsidiaries constitute irregular, unnecessary, excessive, extravagant, or unconscionable government expenditures.*** *Xxx. As pertinently stated in CoA Circular No. 2006-01, the consideration underlying the rules and regulations contained therein is the fact that " [g]overning boards of [GOCCs/GFIs] are invariably empowered to appropriate through resolutions such amounts as they deem appropriate for extraordinary and miscellaneous expenses." Hence, in due deference to the CoA's constitutional prerogatives, the Court, absent any semblance of grave abuse of discretion in this case, respects the regulation, and consequently dismisses the petition. Xxx."* (emphasis supplied)

20.30 Moreover, the same case was reiterated by the Supreme Court in the case of NATIONAL TRANSMISSION CORPORATION, PETITIONER, VS. COMMISSION ON AUDIT (COA) AND COA CHAIRPERSON MICHAEL G. AGUINALDO, RESPONDENTS[64], where it held:

[63] G.R. No. 198271 dated April 1, 2014
[64] G.R. No. 244193 dated November 10, 2020

"The claims for reimbursement of EME of GOCCs, like TransCo, rest upon the existence of sufficient proof of the expenditures incurred by the qualified officials such as receipts and/or other documents evidencing disbursement. It is only when supporting documents are presented that the GOCC can properly claim reimbursement of EME. Hence, it is incumbent upon TransCo and its officials, as claimants, to prove that all these requirements have been met before they can properly claim reimbursement of their EME. It is an elementary rule that he who alleges a fact has the burden of proving it."

20.31 Also, the observation of the Audit Team on the judicious spending is consistent with the observation in the Government-wide Performance Audit in CY 2007[65]. In the Overall Report, COA noted that the propriety of expenses could not be assessed as these were not properly documented. Accordingly, the purpose, participants in the meeting, and recipients of items purchased were not disclosed in the supporting documents. Reported expenses also included meals and snacks spent on weekends. The Audit Team also cited that Section 4 (6) of Presidential Decree No. 1445 provides that claims against government funds shall be supported with complete documentation.

20.32 In view of the foregoing, the Audit Team reiterated that the documentary requirements need not be exhaustively enumerated in the COA Circular, as it is already a basic principle that all disbursements must be properly supported. Assessment of the adherence to the basic principle that government funds shall be spent solely for public purposes could not be made if disbursements are not adequately supported, more so when the purpose is not even indicated.

21. Liquidations of cash advances and reimbursements of traveling expenses were not supported with complete documentary requirements contrary to COA Circular No. 2012-001[66] and Executive Order (EO) No. 77[67].

21.1 This is a reiteration of the prior year's observation with updated information.

21.2 Item 1.2.4.1 of Section 1.2 of COA Circular No. 2012-001 dated June 14, 2012 specifically provides the documentary requirements to support liquidation of cash advance (CA) for local travel, as follows:

- *Paper/electronic plane, boat or bus tickets, boarding pass, terminal fee*
- *Certificate of appearance/attendance*
- *Copy of previously approved itinerary of travel*
- *Revised or supplemental Office Order or any proof supporting the change of schedule*
- *Revised Itinerary of Travel, if the previously approved itinerary was not followed*
- *xxx*
- *Liquidation Report*

[65] presented in Discretionary, Extraordinary and Miscellaneous Expenses Overall Report
[66] COA Circular No. 2012-001 dated June 14, 2012 – Prescribing the Revised Guidelines and Documentary Requirements for Common Government Transactions
[67] Executive Order No. 77, s. 2019 – Prescribing Rules and Regulations and Rates of Expenses and Allowances for Official Local and Foreign Travels of Government Personnel

- *Reimbursement Expense Receipt (RER)*
- *Official Receipt in case of refund of excess cash advance*
- *Certificate of Travel Completed*
- *Hotel room/lodging bills with official receipts in the case of official travel to places within 50-kilometer radius from the last city or municipality covered by the Metro Manila Area, or the city of municipality where their permanent official station is located in the case of those outside the Metro Manila Area, if travel allowances being claimed include the hotel room/lodging rate*

21.3 Audit of the traveling expense account disclosed that liquidation of various CAs granted and reimbursements for local travels were not supported with complete documents as required under COA Circular No. 2012-001.

21.4 Additionally, the representation expense amounting to P162,778.97 incurred by the former General Manager during his travel in Australia on March 4, 2024, was not approved by the Department of Trade and Industry (DTI) Secretary[68] contrary to Section 16 (a) of EO No. 77, which provides that:

> *"(a) The following officials, who are authorized to attend international conferences or meetings or undertake official missions or assignments in the exigency of the service, may be entitled to reimbursement of actual reasonable representation expenses not exceeding the following rates,* ***subject to the approval of the authorities*** *listed under Section 10(a) of this order, based on justifications presented and upon presentation of bills and receipts:"* (emphasis supplied)

21.5 Under the Disbursement policy/procedure of NDC, the concerned workgroup/individual requesting payment shall ensure the completeness of documentation/attachments. Likewise, the Accounting Group shall be responsible for the processing of the disbursement voucher by preparing, reviewing and ensuring the completeness of supporting documents upon receipt of the request for payment. However, the compliance of the concerned workgroups/individuals and the Accounting Group in NDC's own policy/procedures is found to be lacking.

21.6 The Audit Team in prior years has repeatedly called Management's attention to their non-compliance with relevant rules and regulations through the issuance of various Audit Observation Memoranda, which Management agreed to comply with. However, similar issues are still recurring.

21.7 Supporting documents for all claims and adherence to applicable laws and regulations, are among the fundamental principles governing the financial transactions and operations of any government agency. Items 6 and 7 of Section 4 of Presidential Decree (PD) No. 1445 specifically provide that:

> *"(6) Claims against government funds shall be supported with complete documentation.*
> *(7) All laws and regulations applicable to financial transactions shall be faithfully adhered to."*

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[68] Section 10(a) of EO No. 77 provides that "*Department Secretaries or those of equivalent rank shall approved the official foreign travels for personnel in GOCCs under or attached to departments*".

21.8 We reiterated our prior year's recommendations that Management:

a. Require the submission of complete documents as enumerated under COA Circular No. 2012-001 and EO No. 77;

b. Revisit the internal control policy for disbursements, and formulate effective measures in addressing identified weaknesses, if any; and

c. Henceforth, strictly monitor and thoroughly review the completeness of the supporting documents in all financial transactions. Otherwise, disbursements with incomplete documentation will be suspended in the audit.

21.9 Management provided the following comments:

a. NDC Liquidation Report

21.10 Some of the transactions that were tagged as incomplete pertain to reimbursements, which do not require a liquidation report. In such cases, NDC uses a Request for Payment Form accompanied by supporting documents detailing the expenses incurred. This document serves as the basis for processing the reimbursement.

b. Revised Office Order / Travel Order

21.11 In the case of the former officer's travel to Ilocos Norte on July 19-22, 2024, the Post-Trip Report indicated an explanation on the deviation from the original itinerary.

c. Approved Itinerary of Travel

21.12 In the absence of the approved itinerary of travel, the NDC format for Travel Order already included the itinerary. Moreover, COA Circular No. 2023-004 did not provide the format for the said requirements. It only provides that all claims shall be supported with complete documentation that ensures validity, authority, completeness, and accuracy of the claim.

d. Boarding Passes

21.13 Management took note of COA's comment. However, there are instances where boarding passes are not needed, such as when the trip was via land or when an official service vehicle was used. Moreover, there are travels wherein the airfare was paid by another entity; hence, boarding passes were also retrieved by the said entities for their own accounting transactions.

e. Certificate of Appearance / Attendance

21.14 Regarding the non-submission of certificates of appearance/attendance, Management would like to note that COA Circular No. 2023-004, which prescribes the updated documentary requirements for common government transactions, amending COA Circular No. 2012-001, allowed the submission of a photocopy of the received copy of memo/transmittal of Back to Office Report/Narrative Report on trip undertaken. The said report shall contain highlights of the training or activity and pictures, among others.

Hence, some transactions only included the submission of the Post-Event Report in lieu of the Certificate of Attendance/Appearance.

f. Certificate of Travel Completed

21.15 Management noted COA's observation as regards the non-submission of the certificate of travel completed for travels involving more than one officer or personnel. However, subject officers and employees submitted only one certificate covering the whole group. The said trips were completed by all members of the group, and the attached Certificates of Travel Completed apply to all the members of the group.

g. Certification from the Head of the Agency allowing the exceeded rate of EO No. 77

21.16 As regards the absence of a certification from the Head of Agency allowing the rates/claims that exceeded the prescribed amount under EO No. 77, Travel Orders signed by the General Manager already bear the authority that allows actual expenses.

21.17 Moreover, DTI Department Order No. 23-56, s. 2023 allowed the Head of the Attached Agency, or authorized representative as indicated in the agency's internal guidelines (i.e., Manual of Approvals for NDC), to approve the official local travel and payment of corresponding travel expenses. Furthermore, the mere fact that the liquidation report and reimbursements approving actual expenses were duly approved by the NDC General Manager or his authorized representative, said excess claims were deemed approved.

21.18 On the observation regarding the representation expense amounting to P162,778.97 incurred by a former official during his travel in Australia on March 4, 2024, COA noted that only USD 700 or P39,312 was deemed part of the Representation Expenses.

21.19 The authority to charge the P162,778.97 as Representation expense was initially requested from the former DTI Secretary. However, Management was informed by the DTI OSEC that the said amount should be charged as Meeting Expense instead of Representation Expense since it was utilized for the Memorandum of Understanding signing ceremony with potential partners in Australia. Hence, said claim was charged under Meeting/Planning & Conference Expense of the office of the said officer.

21.20 A justification was also attached to the reimbursement claim, which included the summary of rates from three hotels.

21.21 Finally, Management stated that it will thoroughly assess NDC's internal control mechanisms to identify possible weak points in ensuring the completeness of supporting documents in its financial transactions. Moreover, the NDC will identify possible improvements in its processes to avoid similar recurring non-compliances.

21.22 Hereunder is the Audit Team's rejoinder:

a. NDC Liquidation Report

21.23 Management opined that some of the noted transactions are reimbursements in nature, hence not needing a liquidation report. However, the said practice of allowing reimbursement for traveling expenses is contrary to the general guidelines of COA

Circular No. 96-004[69], and was reiterated in Item 1.1.4 of COA Circular No. 2012-001, which provides that:

> *"Both official local and foreign travels shall be treated and accounted for as cash advances. Official local travel shall no longer be treated as direct charges to appropriations or allotments. The Accountant shall obligate all cash advances granted."*

21.24 A similar provision was also provided in the NDC's internal policy on travel expenses[70]. As such, Management is reminded to observe that all official and foreign travels shall be treated and accounted for as cash advances.

b. Revised Office Order/Travel Order

21.25 The Post-Trip Report mentioned by Management is not an equivalent or a substitute for an Office Order. An Office Order contains, among other things, the authority of government personnel to travel which the said Report cannot provide. Further, Item 1.1.4.1 of COA Circular No. 2012-001 provides that an approved Office Order/Travel Order is a necessary documentary requirement in granting a Cash Advance for Local Travel. Thus, the Post-Trip Report, which was prepared AFTER the travel, is not equivalent to an Office/Travel Order that shall be issued BEFORE the travel. Hence, we maintain our recommendation.

c. Approved Itinerary of Travel (IoT)

21.26 NDC has already been using the format for IoT provided in the Government Accounting Manual for National Government Agencies. This form includes, among other things, basic information about the concerned personnel, the detailed itinerary of travel, and the amount of allowable traveling expenses. This is prepared by the concerned personnel, certified by the immediate supervisor, and approved by the Head of the Agency or its authorized representative.

21.27 Thus, Management's claim that the itinerary section in NDC's template for Travel Order is already sufficient and that there were no formats prescribed for this requirement is not acceptable. The itinerary section in NDC's template for Travel Order does not provide sufficient information, and as discussed in the preceding paragraph, NDC has long adopted a proper format for IoT. Thus, we maintain our recommendation.

d. Certificate of Appearance / Attendance

21.28 Management referred to COA Circular No. 2023-004 for the submission of the Post-Event Report in lieu of the Certificate of Attendance/Appearance. However, the

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[69] COA Circular No. 96-004 dated April 149, 1996 – Guidelines to implement Section 16 of Executive Order No. 248 as amended by Executive Order No. 248-A which prescribes the regulations and new rates of allowance for official local and foreign travels of government personnel.
[70] NDC Policy on Travel Expenses effective January 1, 2018.

application of the said Circular has been suspended under COA Circular No. 2024-004[71].

21.29 For this specific requirement, in consideration of the suspension of the Circular referred to, Management is required henceforth to comply with the COA Circular No. 2012-001 on the submission of Certificate of Appearance/Attendance.

e. Certificate of Travel Completed (CTC)

21.30 The CTC is a form used to confirm/certify the completion of the trip based on the approved itinerary. However, for travels involving more than one officer/personnel, a CTC prepared, submitted, and signed by only one person would not suffice for all the members of the group. It cannot be assumed that every member of the group completed the travel based on the approved itinerary without their corresponding CTC. Should Management insist on providing one CTC for travel involving more than one person, the personnel's name and signature must be present, indicating their concurrence in the Certification.

f. Certification from the Head of Agency

21.31 The Audit Team would like to emphasize Paragraph 22.6, where we discussed, as provided in Section 5(d) of EO No. 77, that travel expenses more than the authorized travel rates are only **allowed for claims of actual accommodation expense.** Additionally, the excess is limited to 100 per cent of the accommodation component of the prescribed daily travel expenses (DTE) rate.

21.32 Further, the reimbursement is only allowed upon the submission of the **certification by the agency head** or authorized representative as **absolutely necessary** in the performance of an assignment. Management's contention that the signed Travel Orders, approved liquidation report, and reimbursement are already sufficient to comply with the aforementioned requirement has no basis since these documents serve different purposes. Hence, we maintain our recommendation.

21.33 On the other hand, the coverage of the entitlement for Representation Expenses under EO No. 77 includes officials who are authorized to attend **international conferences or meetings or undertake official missions or assignments**. Additionally, Department Undersecretaries and those of equivalent rank are entitled if they are designated as head of delegation.

21.34 Management stated that they initially requested authority from the then DTI Secretary to charge the amount disbursed as Representation expense; however, they were informed by the DTI OSEC that the amount should be charged as Meeting expense.

21.35 The above statement of Management does not connote any semblance of approval, nor did they present any written consent from the DTI Secretary. Notwithstanding the account to be debited for the disbursement, EO No. 77 only allows reimbursement of

[71] COA Circular 2024-004 dated March 14, 2024 – Suspension of the Application of COA Circular No. 2023-004 dated June 14, 2023, Prescribing the Updated Documentary Requirements for Common Government Transactions, amending COA Circular No. 2012-001 dated June 14, 2012

representation expenses subject to conditions. Otherwise stated, if the claim is not covered under allowed representation expense, then said expense is without legal basis.

21.36 Furthermore, more than two months after the completion of the travel, the then DTI Secretary issued Memorandum Order No. 24-1904 dated May 21, 2024, which amended previously issued Travel Authority of the official, providing authority to claim reimbursement of **actual accommodation expenses** subject to the conditions stated in EO No. 77. Clearly, only the claim for actual accommodation was authorized and there was no post-facto approval for reimbursement of representation expense.

21.37 Finally, it is noteworthy that most of these non-compliances were infringed by relatively new NDC personnel. They might be unfamiliar with existing NDC practices and policies, which should be addressed by the Management since it is their responsibility to inform/orient the new personnel on the common laws, rules, and regulations, and existing NDC practices and policies.

21.38 The Audit Team has noted Management's inconsistent application of NDC's own internal policies, especially on traveling expenses, where some provisions were either favored or overlooked depending on the situation. Regardless, Management is reminded that NDC's internal policies are not above and beyond prescribed rules and regulations set by authorized and competent government agencies. Thus, the Audit Team maintains its recommendation.

21.39 Additionally, we recommend that Management revise their existing internal policy on travel expenses, especially those provisions that are contrary to existing rules and regulations such as COA Circular No. 2012-001 and EO No. 77, among others.

22. Traveling expenses amounting to P347,705 and representation expenses amounting to P123,579 were paid more than the prescribed rates under EO No. 77, thus deemed excessive as defined under COA Circular No. 2012-003[72] dated October 29, 2012.

22.1 This is a reiteration of the prior year's observation with updated information.

22.2 Audit of Traveling Expenses account showed that NDC officers and employees are reimbursed for their actual expenses during most of their official travel. As a result, traveling expenses amounting to P347,705 were disbursed more than the prescribed rates under EO No. 77 as presented in Table 22:

Table 22 - Traveling Expenses Over the Prescribed Rates

	Amount
Actual Traveling Expenses	660,455
Maximum Allowed Daily Travel Expenses (DTE)	312,750
Excess	347,705

[72] COA Circular No. 2012-003 – Updated Guidelines for the Prevention and Disallowance of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable Expenditures

22.3 Also, NDC's policy on travel expenses contains a provision stating that NDC officers (Salary Grade 26 and above), which include positions from Department Manager III and above, are entitled to claim actual travel expenses. We also noted that most of the attached Travel Orders in the liquidation reports contain the instructions "*Actual expenses allowed*".

22.4 However, these practices are contrary to the provisions of EO No. 77. Under Section 5 (b) of the said EO, the maximum allowable DTEs are as follows:

"(b) Daily Travel Expenses (DTE)

i. the Maximum allowable DTE of government personnel, ***regardless of rank and position****, shall be at the following rates:*

Destination		*Maximum DTE*
Cluster I	*Region I* *Region II* *Region III* *Region V* *Region VIII* *Region IX* *Region XII* *Region XIII* *ARMM*	*P1,500*
Cluster II	*Cordillera Administrative Region* *Region VI* *Region VII* *Region X* *Region XI*	*P1,800*
Cluster III	*National Capital Region* *Region IV-A* *Region IV-B*	*P2,200*

22.5 As stated in the EO, the rates of per diem and other allowances for official travel in the government shall be determined by the President. As such, the maximum allowable DTE was prescribed, covering all government personnel, regardless of rank and position. Clearly, the EO applies to all rank-and-file employees and officers.

22.6 Moreover, travel expenses more than the authorized travel rates are only allowed for claims of actual accommodation expense but in no case shall the difference exceed 100 per cent of the accommodation component of the prescribed DTE rate. Section 5(d) provides that this may be allowed only upon submission and presentation of the following:

"(d) ***Travel Expenses in Excess of the Authorized Travel Rates.*** *Claims for reimbursement of actual accommodation expenses (excluding expenses of valets, room attendants, laundry, pressing, haircuts, and similar services furnished by hotels) in excess of the accommodation component of the DTE may be allowed, but in no case shall the difference exceed one hundred per cent (100%) of such component of the prescribed DTE rate, and only upon:*

(i) *Submission of certification by the agency head or authorized representative as absolutely necessary in the performance of an assignment; and*

(ii) *Presentation of bills and receipts. A certification or affidavit of loss shall not be considered as appropriate replacement for lost bills and receipts."*

22.7 However, no certifications as to the absolute necessity of claiming actual accommodation expenses were attached to the liquidation report of the concerned employees and officials.

22.8 On the other hand, assuming that the representation expense incurred by the former General Manager on his travel in Australia was duly approved, the amount reimbursed still exceeded, as shown in Table 23, the amount allowed in Section 16(a)(iii) of the EO which states that Department Undersecretaries and those of equivalent rank, if they are designated as head of the delegation, are entitled to an amount of USD 700.

Table 23 - Representation Expenses Over the Prescribed Rates

	Amount
Actual Representation Expenses	162,779
Allowed Expenses (USD 700 x 56.000[73])	39,200
Excess	123,579

22.9 The disbursement of traveling and representation expenses above and beyond the prescribed rates under EO No. 77 is deemed excessive as defined under Section 5.1 of COA Circular No. 2012-003, to wit:

"The term "excessive expenditures" signifies unreasonable expense or expenses incurred at an immoderate quantity and exorbitant price. It also includes expenses which exceed what is usual or proper, as well as expenses which are unreasonably high and beyond just measure or amount. They also include expenses in excess of reasonable limits."

22.10 Management is reminded that the funds of NDC are government resources or public funds. As provided in Section 2 of PD No. 1445:

*"Section 2. Declaration of Policy. It is the declared policy of the State that all resources of the government shall be managed, expended or **utilized in accordance with law and regulations**, and safeguard against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned."* (emphasis supplied)

22.11 The Commission has been consistent in its mandate to prevent and disallow irregular, unnecessary, excessive, extravagant, and unconscionable expenditures through adherence to existing laws, policies, rules, and regulations.

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[73] Based on the Reference Rate published by the Bangko Sentral ng Pilipinas on its Reference Exchange Rate Bulletin dated March 4, 2024

22.12 We reiterated our prior year's recommendations that Management require the concerned employees and officials to refund the amount received in excess of the prescribed rates in EO No. 77. Otherwise, the amount reimbursed will be disallowed in audit.

22.13 Management commented that the excess claims were due to several factors.

22.14 Logistical and Safety Considerations. Specifically for training-related travels, selected accommodation guarantees proximity to the venue, thereby minimizing transportation costs and ensuring the safety and well-being of participants. Some even opted to book in the hotel where the training course was conducted to save time and expenses in terms of transportation to and from the venue.

22.15 As another case, the travel to South Cotabato of NDC lawyers involves considerations on the availability of a hotel, livability, and security, among others. Hence, subject officers opted to book a hotel in General Santos City instead. Also, there are no hotels in Polomolok, South Cotabato; hence, a hotel in General Santos City that is livable, hygienic, and secure was booked instead. Further, subject officers were unable to pre-book pending the final schedule from the court before booking, hence the increase in price.

22.16 Cost Efficiency in Total Travel Expenditures. Management also commented that there are transactions, which are reimbursement in nature, wherein total amounts claimed are actually lower than the total DTE prescribed by EO No. 77. In some cases, especially on training-related expenses, overall expenses remained within reasonable limits while the accommodation cost exceeded the prescribed rates due to cost savings in other DTE components, thereby not significantly impacting the total travel budget.

22.17 Non-availability of Government-Rate Compliant Lodging. Despite the efforts to identify accommodations that are within the prescribed rates, the high demand or volume of conference attendees, for training-related expenses, and peak travel season in some cases resulted in the unavailability of reasonably priced and EO No. 77-compliant accommodations.

22.18 Additionally, Management provided the following explanations:

a. On the choice of seats, personnel needed additional legroom due to their physical condition. Moving forward, justifications will be required for personnel who will avail themselves of the choice of seats.

b. Toll fees were included in the claims of an officer and three others for their travel to Bataan on June 14-15, 2024, since the RFID of the official vehicle used was not functional. Hence, the team resorted to paying the toll fees with cash.

c. For the travel of an officer to Subic on July 28-August 12, 2024, meals were not provided on Day 0 of the training, which is the subject officer's first day of travel. Moreover, the subject officer left the venue after the closing of the program at around 12:00 noon to attend a meeting, and during that time, lunch had not yet been served. Hence, she was not able to take lunch at the training venue.

d. For the travel to Leyte on December 9-10, 2024, subject personnel requested that an additional allowance for land transportation be added due to physical conditions needing special assistance during the dates of travel.

22.19 Management reiterated that while it is true that EO No. 77 applies equally to all government personnel, certain realities are not fully captured by the said rule. Officials are exposed to security risks by reason of their office. Likewise, they carry with them the name of the Company when making engagements. As such, they must be able to present themselves with dignity and honor when making such engagements.

22.20 In general, excess claims are part of the actual expenses incurred by the NDC officers and personnel involved. These actual expenses, whether through liquidation or reimbursement, were duly approved and authorized by the NDC General Manager or his/her designated signatory as per the NDC Manual of Approvals.

22.21 The Audit Team maintains its position. The various provisions of EO No. 77 covering the prescribed DTE rate and its coverage are clear and not ambiguous. There is no need to further elaborate or provide other meanings to its contents other than what was clearly stated.

22.22 It is clear in our observation that several NDC officers and employees exceeded the allowed DTE, which Management did not deny in their reply, but instead, justified their actions.

22.23 Although some of Management's contentions may be considered reasonable, these do not justify blatant disregard of established rules and regulations. The EO No. 77 did not exempt any government agencies, government officials, or employees from its coverage. Thus, there is no basis to excuse or exempt NDC officials and employees from following the rules and regulations provided therein.

22.24 Moreover, it is worth stressing, as discussed in Paragraphs 22.6 and 22.7, that travel expenses more than the authorized travel rates are only allowed for claims of actual accommodation expense, but in **no case shall the difference exceed 100 per cent of the accommodation component** of the prescribed DTE rate. However, there are no submitted "*certification by the agency head or authorized representative as absolutely necessary in the performance of an assignment"* as required under EO No. 77.

22.25 The Audit Team reiterates, the disbursement of traveling and representation expenses above and beyond the prescribed rates under EO No. 77 is deemed excessive as defined under Section 5.1 of COA Circular No. 2012-003, to wit:

> *"The term "excessive expenditures" signifies unreasonable expense or expenses incurred at an immoderate quantity and exorbitant price. It also includes expenses which exceed what is usual or proper, as well as expenses which are unreasonably high and beyond just measure or amount. They also include expenses in excess of reasonable limits."*

22.26 In view of the foregoing, the Audit Team maintains its position that Management require the concerned employees and officials to refund the amount received in excess of the prescribed rates in EO No. 77. Otherwise, the excess amount will be disallowed in audit.

23. ISO Recertification incentive amounting to P447,000 from calendar years (CYs) 2017 to 2023 are not supported by the required monetary savings contrary to Item 6 of Civil Service Commission (CSC) Memorandum Circular (MC) No. 1, s. 2001.

23.1 The CSC adopted the revised policies on Program on Awards and Incentives for Service Excellence (PRAISE) under the CSC MC No. 1, s. 2001. The MC provided that every agency shall establish its own employee suggestions and incentive awards system, and it shall be designed as follows:

> *"The System shall be designed to encourage creativity, innovativeness, efficiency, integrity and productivity in the public service by **recognizing and rewarding officials and employees**, individually or in groups for their suggestions, inventions, superior accomplishments and other personal efforts which **contribute to the efficiency, economy or other improvement in government operations**, or for **other extraordinary** acts or services in the public interest."* (emphasis supplied)

23.2 The MC also provided the type of awards and the funding source of the PRAISE as follows:

> *"6. The PRAISE shall provide both monetary and non-monetary awards and incentives to recognize, acknowledge and reward productive, creative, innovative and ethical behavior of employees through formal and informal mode.*
>
> *For this purpose, the System shall encourage the grant of non-monetary rewards. **Monetary awards shall be granted only when the suggestions, inventions, superior accomplishments and other personal efforts result in monetary savings** which shall not exceed 20% of the savings generated.*
>
> *7. At least 5% of the HRD Funds shall be allocated for the PRAISE and incorporated in the Agency's annual work and financial plan and budget."* (emphasis supplied)

23.3 From CYs 2017 to 2023, ISO 9001:2015 Recertification amounting to P447,000 was granted to all employees as presented in Table 24. However, these were not explicitly provided in the CSC-approved NDC PRAISE.

Table 24 - Annual PRAISE Monetary Awards

Year Covered	DV No.	DV Date.	Amount
2017	101-18-03-56	03/13/2018	42,000.00
2018	101-19-01-40	01/11/2019	46,000.00
2019	101-20-03-42	03/06/2020	54,000.00
2020	101-21-03-43	03/05/2021	50,000.00
2021	101-22-03-102	03/24/2022	44,000.00
2022	101-23-03-75	03/13/2023	56,000.00

Year Covered	DV No.	DV Date.	Amount
2023	101-24-04-110	04/18/2024	155,000.00
Total			447,000.00

23.4 Further review and verification also disclosed that:

a. There is no proof that the employees' accomplishments relative to obtaining ISO Certification resulted in monetary savings.

i.) It is worth stressing that under item 6 of the MC, the grant of a non-monetary award is encouraged while the grant of a monetary award is conditioned on the presence of monetary savings generated from an employee's efforts. However, there were no documents attached in the disbursement vouchers to prove compliance with this condition, nor the computation of the savings shown in the budget to support the granting of monetary awards for PRAISE.

ii.) COA Decision No. 2018-294 dated March 15, 2018, affirmed the Notice of Disallowance 2011-004(09) on the payment of ISO certification incentive to the Metropolitan Cebu Water District (MCWD) employees, citing that:

"On the argument that the payment of ISO certification incentive bonus was based on the MCWD PRAISE, this Commission is not persuaded. Under CSC MC No. 1, series of 2001, the PRAISE is designed to give incentives to individuals or groups for their suggestions, inventions, superior accomplishments, and other personal efforts which contribute to the efficiency, economy, or other improvement in the government operations or for extraordinary acts or services in the public interest. In this case, the ISO certification incentive bonus was given to the employees without showing that they met the criteria laid down under CSC MC No. 1. There were no documents submitted to prove compliance with Item 6 of CSC MC No. 1 relative to the required monetary savings."

b. The award was granted to all NDC employees instead of eligible individuals/employees or in groups.

i.) Item No.2 of CSC MC No. 01 s. 2001 states that:

"The System shall be designed to encourage creativity, innovativeness, efficiency, integrity and productivity in the public service by recognizing and rewarding officials and employees, individually or in groups for their suggestions, inventions, superior accomplishments and other personal efforts which contribute to efficiency, economy, or other improvement in government operations, or for that extraordinary acts or services in the public interest."

ii.) PRAISE is a mechanism that recognizes and rewards eligible individuals or group of employees for their exemplary accomplishments which contribute to organizational productivity. Thus, indiscriminate granting of PRAISE awards to all employees, without proof of actual accomplishments which prompted the generation of savings is contrary to the essence of PRAISE.

23.5 Based on the foregoing deficiencies with CSC MC No. 01 s. 2001, payments on the grant of the abovementioned PRAISE awards are considered irregular expenditures as defined under Section 3.1 of COA Circular No. 2012-003 dated October 29, 2012, which states that:

“The term "irregular expenditure" signifies an expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. Irregular expenditures are incurred if funds are disbursed without conforming with prescribed usages and rules of discipline. There is no observance of an established pattern, course, mode of action, behavior, or conduct in the incurrence of an irregular expenditure. A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. A transaction which fails to follow or violates appropriate rules of procedure is, likewise, irregular.”

23.6 We recommended that Management:

a. Submit supporting documents showing the monetary savings generated from the suggestions, inventions, superior accomplishments, and other personal efforts that warranted the monetary awards;

b. Provide proof that the PRAISE incentive was included in the approved Corporate Operating Budget (COB) of CYs 2017-2023;

c. Provide legal basis for granting of monetary awards for ISO 9001: 2015 Recertification and Board approval of the same;

d. Provide Board-approved policies/criteria for deliberation/screening/grading of qualified employees/workgroups for individual and team awards; and

e. Henceforth, strictly comply with the requirements in granting monetary awards, specifically, item 6 of CSC MC No. 1, s. 2021.

23.7 Management provided the following justifications:

a. Nature of the ISO Recertification Incentive

23.8 ISO 9001 Certification promotes and enhances public sector performance through the adoption of ISO 9001:2015-aligned Quality Management System (QMS) in government agencies, GOCCs, and LGUs. Adopting a system for quality management entails a careful review and streamlining of the organization’s systems and processes, leading to savings in terms of manhours and operational costs.

23.9 Furthermore, through NDC’s implementation and certification to ISO 9001:2015 QMS, the organization has worked in a more efficient way, as all processes are aligned and understood by everyone in the agency. This increases productivity and efficiency, bringing internal costs down.

23.10 The efficiency of NDC processes is evaluated annually by a third-party ISO certifying body, TUV SUD PSB Phils. Inc.

Table 25 – Summary of ISO Audit Results

Audit Year/Type	Audit Results	Remarks
2016 Surveillance Audit	2 opportunities for improvement, one minor nonconformity	Completion of the 3-year ISO 9001:2008 Certification
2017 Certification (Transition) to ISO 9001:2015	4 minor nonconformities	Covers a 3-year certification cycle
2018 Surveillance Audit	1 opportunity for improvement	
2019 Surveillance Audit	3 opportunities for improvement	
2020 Re-Certification Audit	4 opportunities for improvement	Covers a 3-year certification cycle
2021 Surveillance Audit	1 opportunity for improvement, one positive	
2022 Surveillance Audit	1 opportunity for improvement	
2023 Re-Certification Audit	2 opportunities for improvement	Ongoing certification cycle up to 2025
2024 Surveillance Audit	2 opportunities for improvement	

23.11 Noting that for the past two certification cycles, results show significant improvement in efficiency and effectiveness of NDC's QMS.

23.12 This improvement can also be seen in terms of monetary savings. The PRAISE incentive for any given year is based on the results of performance in the preceding year. For the incentives given in CYs 2017-2023, NDC had an average annual savings of P38 million from CYs 2016-2022.

Table 26 - Annual PRAISE Monetary Awards

Year Covered	Savings on PS and MOOE	ISO Incentive Release Year
2016	42,176,799	2017
2017	23,911,456	2018
2018	11,856,251	2019
2019	35,779,835	2020
2020	18,559,980	2021
2021	10,597,140	2022
2022	123,371,640	2023
Average	**38,036,157**	

23.13 Moreover, in compliance with Section 6 of CSC MC No. 1, the total monetary award for a given year did not exceed 20 per cent of the savings generated from the previous year. It may also be noted that the annual allocation included in the COB was not fully utilized.

23.14 Table 27 shows the comparison of the annual savings generated, which became one of the considerations in giving the incentive, the budget allocation for the PRAISE Award from CYs 2017 to 2023, and the actual amount utilized for the said years.

Table 27 - Annual PRAISE Monetary Awards

Year Covered	Previous Year's Savings on PS and MOOE	DBM-Approved Budget for PRAISE	Actual PRAISE Utilization
2017	42,176,799	185,000.00 (0.44% of savings)	182,000.00
2018	23,911,456	602,000.00 (2.52% of savings)	389,000.00
2019	11,856,251	607,000.00 (5.12% of savings)	415,500.00
2020	35,779,835	728,000.00 (2.03% of savings)	378,000.00
2021	18,559,980	500,000.00 (2.69% of savings)	407,000.00
2022	10,597,140	745,000.00 (7.03% of savings)	412,750.00
2023	123,371,640	763,000.00 (0.62% of savings)	428,000.00

23.15 The incentive was given to credit the efforts of the organization's people in their consistent implementation of NDC's QMS, not only for a year but for two certification cycles (i.e., six years). Further, NDC aims to promote this culture of quality and improvement as it moves forward to face the challenges ahead.

b. Inclusion of ISO Recertification Incentive in the PRAISE Awards

23.16 The existing PRAISE policy/program approved by the CSC provides for other awards to be given as a form of recognizing special achievements, innovative approaches to assignments, exemplary service to the public and recognition by an outside group of a particular achievement.

23.17 The NDC deemed the ISO Recertification as a special achievement since not all government agencies are ISO-certified. In 2017, only 633 national government agencies were certified under the ISO 9001 standard. Until now, not all government agencies have undertaken the path towards establishing a quality management system certifiable to an international standard. Further, having an ISO 9001 certification means that an organization is committed to providing quality products and services to its customers and stakeholders. Hence, this aspect was recognized as part of the other awards under the NDC's PRAISE mechanism.

23.18 As regards the approval of including the ISO Recertification Incentive in the PRAISE Awards, the existing CSC-approved PRAISE policy states that the NDC PRAISE Committee may recommend to the General Manager other awards. Hence, the said incentive was only approved by the General Manager, and not the NDC Board of Directors.

23.19 Lastly, the NDC recognized the contribution of the employees in the maintenance of NDC's ISO 9001 certification for 14 years. This aligns with the principle of Results-Based Performance Management System that focuses on various levels of achievements from individual to collective, and organizational levels, which together lead to different sectors that ultimately impact society.

23.20 However, the NDC Management commented that not all employees were given the ISO incentive; rather, only those who had participated in ISO activities, most especially the 3rd party audit, were considered for the incentive. As an example, the Internal

Auditor during that time was excluded since said personnel did not participate in compliance with Section 5.7 of the Revised Philippine Government Internal Audit Manual 2020.

23.21 Moving forward, the NDC shall review its PRAISE policy to adapt to the latest systems and mechanisms implemented by the Philippine government and, most importantly, to ensure that incentives and rewards are given in accordance with existing rules and regulations.

23.22 The Audit Team reviewed the documents/replies provided by Management and noted that the generated monetary savings over the years are computed based on the actual utilization of funds against the budget for a certain year. Savings thereof are not directly attributed to the agency's compliance with the ISO Certification. Additionally, the documents provided by the Management do not show the direct contribution of each awardee and how it resulted in the supposed savings generated.

23.23 Thus, the Audit Team emphasized and maintained its position that monetary awards shall be granted only when the suggestions, inventions, superior accomplishments, and other personal efforts directly resulted in monetary savings as provided under Item 6 of CSC MC No. 1, s. 2001.

23.24 Moreover, if Management insists that the personnel granted monetary awards were qualified recipients, we recommend that they provide supporting documents that clearly demonstrate each individual's participation in the suggestions, inventions, superior accomplishments, and other personal efforts, and the direct correlation of these contributions to the generated monetary savings.

24. The limitations in the current accounting system used by NDC since CY 2017 require the Accounting personnel to monitor and manually reconcile various accounts, affecting efficiency in the preparation of financial reports and defeating the very purpose of using an accounting system.

24.1 In CY 2017, NDC procured and established its own accounting system called the Financial Management System (FMS). The system allows the Accounting Unit (AU) to record financial transactions and generate financial reports.

24.2 In previous year's audit, the Team noted that some transactions were improperly classified under certain accounts. Inquiry with the AU disclosed that the addition of new accounts in the FMS resulted in an error in the financial reports. Thus, for new transactions that necessitate the addition/creation of a new account, the AU creates a subsidiary ledger code under a related account to "temporarily" record the transaction. For financial reporting purposes, said subcode will be filtered from the system records and will be manually presented under the proper account.

24.3 In CY 2024, the Audit Team compared the Chart of Accounts maintained by NDC through its FMS with the Updated Revised Chart of Accounts per Annex A of COA

Circular No. 2021-005[74] and showed, among others, variances between account codes and names, as presented below:

Table 28 - Comparison of the Chart of Accounts

NDC's Chart of Accounts		Updated RCA per Annex A of COA Circular	
Code	Name	Code	Name
10210111A	Available For Sale Securities (AFS)	10208010	Available For Sale Securities
10210111B	Investment In Time Deposit – LC	10211010	Investments in Time Deposit – Local Currency
10210111D	Investment-FVOCI	10213010	Financial Assets at Fair Value Through Other Comprehensive Income
10303060	Due from Subsidiaries/Joint Ventures/Associates/Affiliates	10303060	Due from Subsidiaries
		10301220	Receivables from Joint Ventures
		10303082	Due from Associates/Affiliates
10303060C	Allowance for Doubtful Accounts – Current	10303062	Allowance for Impairment – Due from Subsidiaries
40501040	Gain on Sale of Property, Plant and Equipment	40501170	Gain on Sale of Unserviceable Property
50102140	Year-End Gratuity Bonus	50102160	Mid-Year Bonus
29999990A	Miscellaneous Payable – Deductible	20101110	Accrued Benefits Payable
		20101020	Due to the Officers and Employees
50299030	Directors and Committee Members' Fees (*presented under Maintenance and Other Operating Expenses*)	50102170	Directors and Committee Members' Fees (*presented under Personnel Services*)

24.4 In this regard, due to the apparent limitations of the FMS, the effective and efficient utilization of the accounting system is weakened. While the Audit Team acknowledges the efforts and capabilities of the AU in ensuring that transactions are correctly and accurately reported in the Financial Statements, the current practice exposes the accounting of transactions to risks of errors, especially if transactions "temporarily" recorded under a different account are not monitored properly.

24.5 Likewise, monitoring thereof and subsequent presentation to proper accounts requires proficiency in mapping the accounts and keen attention to details from the AU personnel. Thus, the efficiency of preparing financial reports through the accounting system is compromised. Nonetheless, inquiry with Management disclosed that development of a new accounting system is currently in progress.

24.6 An accounting system is a fundamental part of an entity's internal control system, which provides the framework for recording, processing, and reporting of financial information; and crucial in ensuring the integrity of financial statements.

24.7 Financial reporting is continuously evolving. New pronouncements and standards are issued and adopted, and an entity's chart of accounts is likewise affected. Hence, COA issued various Circulars to provide an updated Chart of Accounts to conform with international standards and respond to the needs of government agencies. Adoption of the prescribed Chart of Accounts will ensure comparability of financial information

[74] Conversion from the Revised Chart of Accounts (RCA) for Government Corporations (GCs) under COA Circular No. 2015-010 dated December 01, 2025, as amended by COA Circular No. 2016-006 dated December 29, 2016, to the updated RCA for GCs (2019) prescribed under COA Circular No. 2020-002 dated January 28, 2020, and relevant accounting policies and guidelines in the implementation thereof

across government agencies, enhancing the understandability and transparency of the financial reports.

24.8 Thus, the development and implementation of a new accounting system that can timely adapt to the changes and improvements in financial reporting standards will aid NDC to efficiently record, process, and report its financial transactions.

24.9 We recommended and Management agreed to expedite the development and adoption of a new accounting system, with due consideration to various COA Circulars (including the Updated Revised Chart of Accounts), and international standards. Ensure proper transition of financial records and conversion of account codes from FMS to the new accounting system.

24.10 Management commented that the Accounting Unit's breakthrough goal for 2024 was the enhancement of existing FMS, by providing reliable and accurate reportorial requirements, including the adoption of Revised Chart of Accounts. The FMS is currently in the simulation stage, and the Accounting Unit is conducting parallel testing with the present system to ensure that all outputs are accurate and that the newly added features are functioning as intended. The FMS full implementation will be in CY 2025.

GENDER AND DEVELOPMENT (GAD)

25. The non-implementation of some GAD-related Programs, Activities and Projects (PAPs) and attributed programs resulted in 86.14 per cent underutilization, which affected the agency's efficiency in addressing gender-related issues.

25.1 This is a reiteration of the prior year's audit observation with updated information.

25.2 The NDC's Annual GAD Plan and Budget (GPB) for CY 2024, reviewed and endorsed by the Philippine Commission on Women (PCW), allocated a significant portion amounting to P884.054 million or 34.34 per cent for the GAD budget out of its approved Corporate Operating Budget of P2.574 billion.

25.3 The CY 2024 Annual GAD Accomplishment Report (AR) revealed that only 13.86 per cent[75] or P122.558 million was utilized during the year, leaving an unutilized amount of P761.496 million, which is 86.14 per cent of the GAD budget. The details are shown in Table 29:

Table 29 - Details of the utilization of GAD fund

PAPs	Budget	Utilized Amount	Unutilized Amount
Client Focused	300,000	229,908	70,092
Organizational Focused	3,750,000	1,328,486	2,421,514
Attributed Program	880,004,000	121,000,000	759,004,000
Total	**884,054,000**	**122,558,393**	**761,495,607**
Rate		**13.86%**	**86.14%**

[75] The total GAD budget per FY 2024 Annual GPB is P884.054 million however under the CY 2024 Annual GAD Accomplishment Report (AR), only P122.558 million was utilized. The AR submitted to COA on February 13, 2025 was not yet approved by PCW.

25.4 As presented in Table 29, NDC expenditures under GAD client-focused activities amounting to P229,908 pertain to the cost of attendance to the 2nd UniComm GAD, Stress Management in the Workplace Lecture, Managing Emotions in the Workplace: Enhancement of Self-Care Strategies, Breast Cancer Awareness Lecture, 2024 18-Day Campaign to End Violence Against Women t-shirts, film showing and display of official campaign banner/tarpaulin.

25.5 The P1.328 million utilized for the organizational-focused activities include expenditures for the National Women's Month Celebration, trainings, workshops, and lectures, consultancy fees for GAD consultants, relief goods distribution to Typhoon Carina victims, and construction of the NDC public restroom.

25.6 Attributed programs cover 98.73 per cent or P121 million of the total GAD expenditure. Of the five attributed programs, four pertain to investments in private entities. In which the actual cost of investment to these entities is attributed as GAD-responsive. Details are shown below:

Table 30 - Details of Attributed Program

GAD Activity	Budget	Actual Cost	Remarks
Investment 1	54,250,000	70,000,000	Equity investment
Investment 2	31,000,000	40,000,000	Debt instrument
Investment 3	8,250,000	11,000,000	Equity investment (Start-up venture fund)
Investment 4	86,250,000	0	Equity investment
Procurement	700,254,000	0	Procurement was cancelled
Total	**880,004,000**	**121,000,000**	

25.7 Three of the five activities pertain to equity investments, where NDC grants funds to private entities in various sectors in exchange for an equity share. Meanwhile, one of the above activities pertains to an extension of a debt instrument, convertible to equity shares, that earns a fixed interest. Relative thereto, NDC has limited participation in how the investment may be used by the investees. Unless the investees intended/committed, or NDC requires them to utilize the said funding for GAD-related activities, the NDC is not assured that the investment will be used for such purpose.

25.8 Moreover, it is noticeable that the total actual cost is higher than the total budgeted cost. The actual costs per AR do not necessarily pertain only to the cost attributed to GAD programs but rather to the total funds invested.

25.9 While the attribution to the GAD budget of a portion of an agency's programs/projects may gradually increase the gender responsiveness of government programs and budgets, NDC should be objective and deliberate in analyzing and identifying which parts of its programs/projects can be attributed to the GAD budget.

25.10 Finally, the underutilization of the GAD budget indicated that Management may not have addressed the gender issues included in the CY 2024 GPB, depriving the intended beneficiaries of benefits that may be derived from GAD PAPs.

25.11 We recommended that Management:

a. **Maximize the utilization of the GAD funds, and establish an effective monitoring mechanism to ensure proper implementation of identified GAD PAPs, to attain the objectives for which the funds were allocated for;**

b. **Furnish the resident Auditor a copy of the PCW-approved AR for CY 2024;**

c. **Recompute the actual costs incurred for GAD-related transactions under the attributed programs; and**

d. **Monitor and ensure that the funds allocated for attributed programs are used for GAD-related activities to justify the attribution.**

25.12 Management commented that NDC has exerted efforts to implement the GAD PAPs included in its GPB for CY 2024. Most of the programmed PAPs were already implemented, while some components are still ongoing, as indicated in the final GAD AR for CY 2024 submitted to PCW.

25.13 On the underutilization of the allocated amount for GAD PAPs, one of the attributed programs with a budget of P700.254 million was terminated by the Board of Directors during its November 28, 2024, meeting. This termination greatly affected the 2024 GAD Budget utilization. Moreover, the NDC was not able to conduct Gender Sensitivity Training for NDC employees and GAD Planning and Budgeting Workshop for GPB 2025 with a total budget amounting to P1.150 million.

25.14 Management also commented that there was no Harmonized Gender and Development Guidelines (HGDG) - Project Implementation, Management, Monitoring, and Evaluation (PIMME) assessment conducted by NDC to determine the actual attributable budget expenditure of the programs. This was due to the lack of HGDG PIMME training for NDC employees involved in GAD Accomplishment Report preparation for 2024. To address this, the NDC will conduct the said training in 2025.

25.15 To further ensure the attribution of programs and projects, the NDC engaged the project proponents for the integration of gender commitments in the projects. Relative to the lack of training on the application of the HGDG PIMME, attributable salaries of NDC GAD Focal Point System (GFPS) and persons involved in the implementation of GAD PAPs were also not reflected in actual expenses.

25.16 Management has noted the observations and will comply with said recommendations in their next GAD AR for 2025. NDC will also continue engaging a PCW-certified GAD consultant to assist in gender mainstreaming, particularly in project investments.

25.17 Management will furnish the Audit Team a copy of the PCW-approved AR for CY 2024 as soon as NDC receives a copy of the same, as it is under review by the PCW. Also, Management will submit any possible re-computation of the actual costs incurred for GAD-related transactions under the attributed programs as soon as NDC receives the PCW-approved AR for CY 2024, and will act on any adjustments, as needed.

25.18 Finally, Management stated that NDC will comply with the recommendations and will monitor and ensure that the funds allocated for attributed programs are used for GAD-related activities to justify the attribution.

25.19 The Audit Team noted that the NDC has used the Facilities Design GAD Checklist for Funding Facilities to come up with the budget allocation per attributed program, such as in the case of Investment 4[76] and Procurement[77] but did not use the HGDG – PIMME for assessment of the gender responsiveness of the project at the implementation, monitoring, and evaluation phases, respectively. Thus, the Audit Team will monitor Management's action, especially the conduct of relevant training necessary to address the issues in the implementation of GAD PAPs.

26. NDC did not create/assign a Responsibility Center (RC) for the GFPS to account, monitor, and report GAD expenses and other GAD-related financial transactions, which is not compliant with COA Circular No. 2021-008 dated September 6, 2021.

26.1 This is a reiteration of the prior year's audit observation with updated information.

26.2 COA Circular No. 2021-008 dated September 6, 2021, requires all government agencies to create/assign an RC for the GFPS to facilitate the generation of all reports pertaining to GAD-related expenses and other GAD-related financial transactions, and to monitor and properly account for the GAD funds.

26.3 Further, Section 4.9 of the same Circular provides that:

> *"Government entities using manual accounting system and impractical to establish separate RC for GAD shall maintain a subsidiary ledger (SL) for GAD for each account and may assign SL code for example 01 (i.e., training expenses 5020201002-01, travelling expenses 502010100001) to record all GAD-related expenses/programs/activities/projects in order to facilitate the monitoring, accounting and preparation of the GAD-related reports."*

26.4 Disclosures under Note 39 of the financial statements showed that the GAD funds utilized only P1.034 million, contrary to the contents of the GAD AR amounting P122.558 million.

26.5 Despite having a designated SL for GAD-related expenses, programs, activities, and projects, the total amount indicated in the SL did not match the amount reported in the GAD AR. Furthermore, verification of the transactions under the said SL code showed that it is not used exclusively for GAD-related activities.

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[76] 11.5 total GAD score for the facility design divided by 20 (constant) and multiplied by P150 million total project cost

[77] 12.0 total GAD score for the facility design divided by 20 (constant) and multiplied by P1.167 billion total project cost

26.6 Inquiry with the Accounting Unit (AU) staff revealed that the records of the Accounting and Human Resources Units (HRU) as to the utilization of GAD funds are still for reconciliation.

26.7 The discrepancy could have been mitigated had NDC established its own RC for the GFPS. This would facilitate the generation of all reports pertaining to GAD-related expenses and other GAD-related financial transactions, as well as enabling effective monitoring and proper accounting of the GAD funds.

26.8 We reiterated our prior years' recommendations that Management:

a. Adhere to the requirements of COA Circular No. 2021-008 dated September 6, 2021, by creating/assigning a Responsibility Center for the GFPS, to ensure proper accounting, monitoring, and reporting of GAD expenses and other GAD-related financial transactions; and

b. Reconcile the records of AU and HRU and revise Note 39 of the Financial Statements, if warranted.

26.9 NDC management noted COA's observation on the creation/assignment of RC for the GPS to account, monitor, and report GAD expenses, and other GAD-related financial transactions. Management noted that the Accounting Unit has already created a responsibility center for GAD under SL Code 8649- Gender and Development (GAD). The AU periodically monitors transactions recorded under GAD to ensure that only GAD-related activities are included.

26.10 As a way forward, the NDC will assess the necessity to assign dedicated unit personnel to monitor and report not only GAD expenses and other GAD-related transactions but also the planning, budgeting, implementation, and reporting of GAD-related PAPs and corresponding budget utilization.

26.11 The Audit Team agreed that the AU had already established an RC Code for GAD. However, establishing an RC Code is different from creating a Responsibility Center. By definition provided in Items 3.6 and 3.7 of COA Circular No. 2021-008 dated September 6, 2021, the Responsibility Center and RC Code are:

> *"3.6 **Responsibility Center (RC)** – is a part, segment, unit, or function of a government entity, headed by a manager, who is accountable for a specified set of activities. Except for some, which derive most of their income from collection of taxes and fees, government entities are basically cost centers with primary purpose to render service to the public at the lowest possible cost. Cost centers are established to provide each government entity with accessibility to cost information and to facilitate cost monitoring at any given period; and*
>
> *3.7 **RC Code** – the code assigned by the government entity concerned to its individual RCs. The additional three-digit codes for the agency's major offices/departments shall be appended to its organization code."*

26.12 The Audit Team will monitor Management's compliance with the recommendations and subsequent actions.

COMPLIANCE WITH TAX LAWS

27. Taxes withheld and due to the Bureau of Internal Revenue for CY 2024 were recorded and remitted within the prescribed period. Data is presented in Note 40 to the Notes to Financial Statements.

COMPLIANCE WITH RULES ON GOVERNMENT MANDATORY DEDUCTIONS AND REMITTANCES

28. For CY 2024, the appropriate premium contributions and loan amortizations were deducted from the salaries of the employees of NDC. Employees' shares, together with the government share as well as the loan amortizations of employees, were remitted to the Government Service Insurance System (GSIS), Philippine Health Insurance Corporation (PHIC), and Home Development Mutual Fund (HDMF) within the prescribed period. The remittances for CY 2024 are as follows:

Table 31 - GSIS, PHIC, and HDMF amortizations and remittances

Particulars	Amount
GSIS contribution and loan amortization	9,126,599
PHIC contribution	1,407,749
HDMF contribution and loan amortization	525,047
Total	**11,059,395**

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

29. As of December 31, 2024, the details of Notices of Suspension, Disallowance, and Charge issued upon the effectivity of the COA Rules and Regulations on the Settlement of Accounts (RRSA) are as follows:

Table 32 - Summary of Audit Suspensions, Disallowances and Charges

	Balances as of January 1, 2024	Issued during the year	Settled during the year	Balances as of December 31, 2024
Notice of Suspension	0	0	0	0
Notice of Disallowance	20,845,002	0	0	20,845,002
Notice of Charge	0	0	0	0
	20,845,002	**0**	**0**	**20,845,002**

30. The details of the Notices of Disallowance are shown below:

Table 33 - Details of Notices of Disallowance

Date	ND No.	Amount	Settled	Balance
April 26, 2019	2019-001(2018)*****	581,250	0	581,250
August 30, 2017	2017-001(2014-2016)****	1,447,085	0	1,447,085
August 12, 2013	2013-001(2012)****	1,375,000	0	1,375,000
August 14, 2013	2013-002(2012)***	725,000	0	725,000
July 7, 2010	2010-001-101(07)*	399,999	0	399,999
July 7, 2010	2010-002-101(07)*	333,334	0	333,334
July 13, 2010	2010-003-101(08)*	266,667	0	266,667
July 13, 2010	2010-004-101(08)*	83,333	0	83,333
July 13, 2010	2010-005-101(08)*	233,334	0	233,334
July 13, 2010	2010-006-101(09)*	233,333	0	233,333
July 13, 2010	2010-007-101(09)*	166,667	0	166,667
May 20, 2003	2003-001-001**	15,000,000	0	15,000,000
		20,845,002	**0**	**20,845,002**

* With Petition for Review on Certiorari filed with the Supreme Court on May 9, 2011

** With COA Order of Execution dated February 6, 2014

*** With COA Order of Execution dated July 26, 2017, and with Petition for Review dated October 5, 2017, to COA Commission Proper

**** Pending resolution by the COA Commission Proper pursuant to Rule V, Section 7 of the Revised Rules of Procedure of COA

***** With Corporate Government Sector Cluster 4 Decision No. 2020-07 dated June 19, 2020

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 54 audit recommendations embodied in the prior year's Annual Audit Report (AAR), 29 were fully implemented/reconsidered, and the remaining 25 that were not implemented are reiterated in Part II of this Report. Details are presented below:

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2023 AAR Observation No. 1, page 66	The faithful representation of the recorded Investment Property amounting to P31.472 billion was not obtained due to: a) the inclusion of a property declared as a Wilderness Area with a Fair Market Value (FMV) of P46.080 million; and b) eight investment properties with a FMV of P291.665 million, occupied by illegal settlers/ occupants, were not appraised in accordance with the provisions of Philippine Financial Reporting Standards (PFRS) 13 and Philippine Accounting Standard (PAS) 40.	a. Explain the recognition of the Sta. Fe Bantayan, Cebu Property as an investment property;	Implemented.
		b. Determine and assess the valuation of National Development Company (NDC's) eight properties occupied by illegal settlers, with due consideration to the provisions of PFRS 13 and PAS 40 and provide necessary disclosures;	Implemented.
		c. Facilitate re-appraisal of the subject properties with an independent appraiser; and	Implemented.
		d. Revisit the procurement process in acquiring an independent appraiser, specifying the expected outputs and conditions to be included in the Terms of Reference / Contract, among others.	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2023 AAR Observation No. 2, page 70	The faithful representation of the Current Receivables account amounting to P231.247 million, net of allowance for impairment, could not be ascertained due to variances noted in the Rental Receivable account, amounting to P7.984 million, between the balances per NDC records and confirmation results.	a. Review the recording of monthly accrual based on the noted variances, reconcile with the corresponding lessees, and prepare adjusting entries, if warranted;	Implemented.
		b. Demand payment from lessees with overdue accounts and consider applying penalties and/or interests in accordance with the terms and conditions of their respective lease contracts; and	Implemented.
		c. Coordinate with the representatives of Al Amanah Islamic Bank of the Philippines, Senate of the Philippines, Panay Railway, Inc., and all other lessees from prior years' confirmations with variance in their balances to reconcile and settle their long outstanding accounts.	Not implemented. Reiterated in Observation No. 2 of this Report.
2023 AAR Observation No. 3, page 72	The faithful representation of the recorded Property and Equipment (PE) amounting to P188.288 million was not attained due to: a) continuous recognition of both disposed and undisposed unserviceable PE in the books of accounts of	a. Direct the Accounting Unit (AU) to derecognize the unserviceable PE items in the books of accounts upon disposal or when no future economic benefits are expected from its use;	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	NDC; b) inclusion of fully depreciated PE which was reported as missing items in the Report on Physical Count of Property, Plant, and Equipment (RPCPPE); c) non-recognition of impairment for intangible assets; and d) PE items were considered "counted" in the RPCPPE but were recorded in the books of accounts of NDC as miscellaneous items without a detailed breakdown.	b. Prepare an updated Inventory and Inspection Report of Unserviceable for calendar year (CY) 2023 and instruct the Disposal Committee to undertake immediate disposal of the remaining idle and unserviceable PE items;	Implemented.
		c. Based on the list of non-existing/missing PE items in the RPCPPE prepared by the Administrative Unit, investigate to determine accountability over the missing PE items;	Not implemented. Reiterated in Observation No. 3 of this Report.
		d. File a request for authority to derecognize non-existing/missing PE items from the Commission on Audit (COA) duly supported with required documents if no person can be found accountable after investigation, pursuant to COA Circular No. 2020-006 dated January 31, 2020;	Not implemented. Reiterated in Observation No. 3 of this Report.
		e. Direct the Administrative and Accounting Units to determine the source of the remaining "Miscellaneous" PE items and provide a	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		detailed breakdown for the same; and f. Instruct the AU to establish/adopt an impairment policy, conduct an impairment test on all Intangible assets, and provide the corresponding allowance, if warranted.	 Implemented.
2023 AAR Observation No. 4, page 77	The faithful representation of the Non-Current Receivables account, net of allowance for impairment losses, amounting to P79.111 million, was not obtained due to accounts that have remained dormant and outstanding in NDC's books of accounts for more than ten years.	a. Require the AU, in coordination with its Legal Department, to refile a request for authority to write off dormant accounts with the COA, duly supported with required documents, pursuant to COA Circular No. 2023-008 on the proper disposition/closure of dormant accounts; and b. Submit to the Audit Team the Schedule of Dormant Receivables, Unliquidated Cash Advances, and Intra/Inter-Agency Fund Transfers in compliance with the COA Circular.	Not implemented. Reiterated in Observation No. 6 of this Report. Not implemented. Reiterated in Observation No. 6 of this Report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2023 AAR Observation No. 5, page 79	The faithful representation of the Inter-Agency Payables amounting to P23.617 million was not attained due to unreconciled variance of NDC's payable to the COA amounting to P13.002 million.	a. Require the AU to expedite the gathering of records to reconcile with the Finance Office, COA-Planning, Finance, and Management Sector (PFMS) for the difference between the assessment billed and the actual cost of audit services incurred and prepare adjusting entries, if warranted; and	Not implemented. Reiterated in Observation No. 4 of this Report.
		b. Remit the balance of the cost of audit services due to COA through the Bureau of Treasury, and furnish the Finance Office, COA-PFMS, a copy of proof of remittance for easy reference and reconciliation between NDC's and COA's records, if any; and	Not implemented. Reiterated in Observation No. 4 of this Report.
		c. Henceforth, conduct periodic monitoring and reconciliation of records between NDC and COA pertaining to the cost of audit services.	Implemented.
2023 AAR Observation No. 6, page 81	The prolonged negotiation/ finalization between NDC and the Toll Regulatory Board (TRB) of the compensation price on the negotiated sale of the 13,297.97 square meters (sq. m.) portion of the Pandacan	a. Coordinate with TRB to expedite the execution of Memorandum of Agreement for the immediate resolution of the issues on the right-of-way acquisition of the Pandacan property	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	property affected by the Right-of-Way of the Metro Manila Skyway Stage 3 Project, with an offer amounting to P757.984 million since calendar year 2018, deprived NDC of funds that could be used for its operations.	and the corresponding just compensation thereof; and b. Demand compensation from Project contractors for the unauthorized use of the property in the absence of a lease agreement.	 Reconsidered.
2023 AAR Observation No. 7, page 85	Several NDC investment properties are either idle/vacant, occupied by illegal occupants, or underutilized, depriving NDC of potential income while incurring Real Property Taxes and Security Services expenses aggregating to P29.079 million in CY 2023.	a. Determine whether Brgy. Biaan, Mariveles, Bataan property is within the Ancestral Domain/Lands or belonging to Indigenous Cultural Communities/ Indigenous Peoples. Apprise the Audit Team on the status thereof; b. Coordinate with the Department of Public Works and Highways regarding the property in Brgy. Alas-asin, Mariveles, Bataan affected by the Bataan-Cavite Project, and to facilitate negotiation for a possible sale of the subject property; c. Coordinate with the Local Government Unit (LGU) and the school administration with reference to the Brgy. Batangas II, Mariveles, Bataan	Not Implemented. Reiterated in Observation No. 8 of this Report. Implemented. Not implemented. Reiterated in Observation No. 8 of this Report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		property, and determine whether Site 3 can still be pursued for possible school expansion;	
		d. Coordinate with the LGUs to take necessary and appropriate actions against illegal settlers/occupants on NDC properties. Issue a notice/demand to immediately vacate the property or resort to any legal means available to NDC. Otherwise, collect compensation therefrom;	Not implemented. Reiterated in Observation No. 8 of this Report.
		e. Promote and advertise all idle/vacant properties to attract prospective lessees and/or buyers. Otherwise, study other options available to NDC for the best and most productive use of the properties;	Implemented.
		f. Coordinate with DHSUD for NDC properties eyed for the Pambansang Pabahay for the Filipino Program; and	Implemented.
		g. Submit a Semestral Status Report to the Audit Team regarding Management's monitoring of NDC properties and provide detailed and	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		updated information on it.	
2023 AAR Observation No. 8, page 93	Eight investment properties amounting to P203.990 million with an aggregate area of 19,546 sq. m., acquired by NDC either through dividend, donation, or assignment, remained unregistered despite the lapse of four decades, exposing government assets to legal risks and/or loss of the actual property.	Exert utmost effort to expedite the titling of lands under NDC's name.	Not implemented. Reiterated in Observation No. 9 of this Report.
2023 AAR Observation No. 9, page 96	Despite several extensions, the site development works for the NDC Industrial Estate (NDCIE) Project, located in Barangay Langkaan II, Dasmariñas City, Cavite, with a contract amount of P171.737 million, have yet to be completed.	a. Determine courses of action to be implemented in the area where soil erosion occurred affecting the construction of the administration building and other improvements;	Not implemented. Reiterated in Observation No. 11 of this Report.
		b. Formulate a definitive action plan on the construction of a water supply system for NDCIE to prevent further delays in the project;	Implemented.
		c. Coordinate promptly and regularly with government regulatory agencies for timely resolution should any problem arise; and	Implemented.
		d. Henceforth, ensure the reliability, completeness, and	Not implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		timeliness of the preliminary engineering study for future infrastructure projects before proceeding with the Detailed Engineering Design in accordance with the RIRR of RA No. 9184.	Reiterated in Observation No. 11 of this Report.
2023 AAR Observation No. 10, page 100	The value of NDC's investment of P45 million in the Rizal Hydropower Project declined significantly due to continuous losses since its commercial operations in CY 2016.	Coordinate with the PNOC Renewables Corporation and formulate an action plan to obtain the most advantageous result for both parties and, ultimately, for the government.	Not implemented. Reiterated in Observation No. 12 of this Report.
2023 AAR Observation No. 11, page 104	NDC-Philippine Infrastructure Corporation (NPIC) remained idle and non-operational for 16 years despite NDC's plan to use the former as a vehicle for infrastructure projects, resulting in the non-utilization of government assets and resources in a judicious and efficient manner.	a. Proceed with the application for reactivation of NPIC so that it is ready for any NDC projects; and b. Formulate concrete plans and realizable projections on the use of NPIC as NDC's vehicle for its projects to avoid further stagnation of the former's assets and resources and to ensure their judicious and efficient utilization.	Reconsidered. Not implemented. Reiterated in Observation No. 17 of this Report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2023 AAR Observation No. 12, page 106	NDC's protracted acquisition of the 40 per cent share of Goodyear Phils. Inc. (GPI) in GY Real Estate, Inc. (GYREI) adversely affects GYREI's financial condition and going concern status.	Expedite the purchase of GPI's 40 per cent share in GYREI. Thereafter, develop a concrete plan to maximize the utilization of the subject property and improve GYREI's financial condition in the best interest of the stakeholders and the government.	Not implemented. Reiterated in Observation No. 15 of this Report.
2023 AAR Observation No. 13, page 109	NDC's impending acquisition of the 40 per cent share of GE Lighting Philippines, Inc. (GELP) in Pinagkaisa Realty Corporation (PRC) and the lack of a definitive plan after the turn-over of the PRC's investment property have adversely affected its financial condition and going concern status.	Provide a clear plan regarding its impending acquisition of the 40 per cent share of GELP in PRC and outline a comprehensive strategy for the PRC's sustainable operation and profitability.	Not implemented. Reiterated in Observation No. 16 of this Report.
2023 AAR Observation No. 14, page 111	Copies of contracts, Purchase Orders (POs), and Job Orders (JOs) and their supporting documents aggregating P36.465 million were not submitted as prescribed under Sections 3.1 and 3.2 of COA Circular No. 2009-001, thus preventing the Audit Team from conducting a timely review and evaluation.	a. Strictly comply with Sections 3.1 and 3.2 of COA Circular No. 2009-001 on the submission of contracts, POs, and JOs, including attachments/ supporting documents, within five WDs from the execution date; b. Monitor and remind each work group on the timely submission of contracts, POs and	Implemented. Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		JOs, and supporting documents;	
		c. Henceforth, for submissions of contracts, POs, and JOs, where delay cannot be avoided due to factors beyond NDC's control or those reviewed by the OGCC, attach an explanation with supporting documents; and	Implemented.
		d. Also, submit a quarterly summary of all contracts entered into by NDC to ensure complete and timely submission of all contracts.	Implemented.
2023 AAR Observation No. 15, page 113	The balances of the car and housing loans granted to former NDC officials and employees, aggregating P0.822 million and P5.921 million, respectively, remained outstanding/dormant for three to 25 years due to the passive action of Management.	a. Require the Legal Department to expedite the filing of extrajudicial foreclosure and claims against the estates for defaulting former NDC officials and employees;	Not implemented. Reiterated in Observation No. 18 of this Report.
		b. Direct the Treasury Unit to exert more effort in collecting payment from Employees 18 and 19; otherwise, refer the matter to the Legal Department for legal action;	Not implemented. Reiterated in Observation No. 18 of this Report.
		c. Expedite acquisition of properties and transfer of titles under NDC's name for the	Not implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		two accounts (Employees 2 and 3) with a certificate of sale;	Reiterated in Observation No. 18 of this Report.
		d. Submit an updated status/monitoring report to the Audit Team regarding the car and housing loan accounts, including copies of demand letters, filed cases, and other pertinent documents to prove the actions taken to enforce collection of the dormant receivables; and	Not implemented. Reiterated in Observation No. 18 of this Report.
		e. Strictly enforce sanctions provided in the housing loan agreements through the Legal Department.	Not implemented. Reiterated in Observation No. 18 of this Report.
2023 AAR Observation No. 16, page 116	The grant of communication allowance to NDC officers and employees amounting to P1.030 million from October 5, 2021, to December 31, 2023, was not in accordance with the authorization letter dated January 26, 2022, of the Governance Commission for GOCCs (GCG), implementing the Compensation and Position Classification System (CPCS) under Executive Order (EO) No. 150, series of 2021.	a. Provide a specific legal basis for the grant of communication allowance; and b. Strictly comply with the provisions of EO No. 150, CPCS Implementing Guidelines, and authorization letter issued by GCG to NDC on January 26, 2022, on the grant of salary, allowances, benefits, incentives, and other entitlements.	Reconsidered. Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2023 AAR Observation No. 17, page 121	Payment for membership fees to private clubs amounting to P461,680 is considered an unnecessary expenditure under COA Circular No. 2012-003 dated October 29, 2012.	Provide justification for maintaining the subject club shares and submit documentation of the benefits derived therefrom.	Implemented.
2023 AAR Observation No. 18, page 123	The expired registration of the Collective Negotiation Agreement (CNA) of NDC-League of Employees for Excellence, Ardor, & Professionalism (NDC-LEAP) precludes the grant of CNA Incentive for calendar year (CY) 2023 amounting to P0.873 million, under Department of Budget and Management Budget Circular No. 2023-1.	a. Require the recipients of CNA Incentive for CY 2023 to refund the amount received; and b. Renew CNA Registration with the CSC.	Not implemented. Notice of Disallowance No. 2025-001 (2023-2024) was issued on May 20, 2025. Implemented.
2023 AAR Observation No. 19, page 126	Non-submission to the Audit Team of the copy of the GAD Plan and Budget (GPB), as endorsed or reviewed by the Philippine Commission on Women (PCW), is contrary to PCW Memorandum Circular (MC) No. 2022-03 and precluded the conduct of the audit of GAD transactions for CY 2023.	Furnish the Audit Team with a copy of the PCW-reviewed or -endorsed GPB for CY 2023 and observe strict compliance with PCW Memorandum Circular No. 2022-03.	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2023 AAR Observation No. 20, page 127	The allocated amount for GAD Programs, Activities, and Projects (PAPs) in CY 2023 was not fully utilized, with an unused balance of P85.087 million or 99.88 per cent at year-end, resulting in the non-implementation of GAD-related PAPs and attributed programs, which may have affected the agency's efficiency in addressing gender-related issues.	Maximize the utilization of the GAD funds and establish an effective monitoring mechanism to ensure proper implementation of identified GAD PAPs and attain the objectives for which funds were allocated.	Not implemented Reiterated in Observation No. 25 of this Report.
2023 AAR Observation No. 21, page 128	NDC did not create/assign a Responsibility Center (RC) for the GFPS to account, monitor, and report GAD expenses and other GAD-related financial transactions, which is not in compliance with COA Circular No. 2021-008 dated September 6, 2021.	Adhere to the requirements of COA Circular No. 2021-008 dated September 6, 2021, by creating/assigning a Responsibility Center for the GFPS to ensure proper accounting, monitoring, and reporting of GAD expenses and other GAD-related financial transactions.	Not Implemented. Reiterated in Observation No. 26 of this Report.