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

CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4 – INDUSTRIAL AND AREA DEVELOPMENT

June 21, 2023

The Board of Directors
National Development Company
116 Tordesillas Street,
Salcedo Village, Makati City

CORPORATE SUPPORT GROUP
Received by: SHEILA L. BUSILAN
Date: 6/23/23
Time: 1:33 pm

Gentlemen/Mesdames:

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 National Development Company (NDC) for the years ended December 31, 2022 and 2021.

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

The Auditor expressed an unmodified opinion on the fairness of presentation of the financial statements of the Corporation.

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

1. The investment properties amounting to P458.988 million with an aggregate area of 122,842 square meters (sq.m.) acquired by NDC through dividend, donation and assignment were still not covered by Transfer Certificates of Title thereby negating management's assertion of its rights and obligations pertaining thereto.

   We reiterated our prior years' recommendation that Management exert utmost effort to expedite the titling of these untitled lands in NDC's name to establish rights and ownership over said properties.

   Further, we recommended that Management direct the Assistant General Manager of Asset Management Group to coordinate with concerned local government units to seek assistance in clearing some of the properties from informal settlers to avoid possible delays/disputes that may arise when the same will be developed or leased.

2. The faithful representation of the balance of the Rental Receivable account amounting to P57.883 million could not be established due to unreconciled variances in the total amount of P29.384 million between the balance per books and confirmed balances of the accounts with various lessees.

We recommended that Management:

a. Review the recording of monthly accrual based on the noted variances, reconcile with the corresponding lessees and prepare adjusting entries, if warranted;

b. Demand payment from lessees with overdue accounts and consider applying penalties and/or interests in accordance with the terms and conditions of their lease contracts; and

c. Coordinate with the representatives of Manila Pest Control, Al Amanah Islamic Bank of the Philippines, Senate of the Philippines and Spectrum Engineering and Consultancy to finally reconcile and settle their long outstanding accounts.

3. The compensation price on the negotiated sale of 13,297.97 sq. m. of Pandacan property, subject to the Right-of-Way (ROW) of the Metro Manila Skyway Stage 3 (MMSS3) Project amounting to P757.984 million was not yet finalized despite the lapse of more than four years since the undertaking of the Road ROW acquisition in February 2018 by the Department of Public Works and Highways (DPWH) and remained outstanding after completion of the project in January 2021, resulting in foregone revenue or lost income opportunities for the Corporation.

   We reiterated our prior year's recommendations with modification that Management:

   a. Continuously coordinate with the Toll Regulatory Board (TRB) and DPWH to expedite the execution of the Memorandum of Agreement (MOA) for the immediate resolution of the issue on the ROW acquisition of the Pandacan property and the corresponding compensation thereof;

   b. Consider the inclusion of legal interest in the computation of the compensation price for the property covered in ROW acquisition for MMSS3 Project and negotiate the same with TRB and DPWH, pursuant to Section 5 of Republic Act No. 10752 as implemented by Section 6.11 of its Implementing Rules and Regulations; and

   c. Demand compensation from the contractors of the Project for the unauthorized use of the property in the absence of a lease agreement.

4. The value of NDC's investment amounting to P45 million in the Rizal Hydropower Project located in Rizal, Nueva Ecija has significantly decreased due to share in losses amounting to P8.974 million since the Project's commercial operation in July 2016, hence, return of investment may not be realized within the targeted payback period of eight years.

   We recommended that Management:

   a. Study the options available for NDC to recover its investment in the Project, such as the intention to sell the Project by the Philippine National Oil Company Renewables Corporation and consider the grounds for termination of the MOA as provided in Section 16.2 thereof, if based on assessment, the existing conditions adversely affect the operations and disadvantageous to the partners;

   b. Assess/evaluate the current operational status and viability of the Project if it is still feasible and reasonable for NDC to infuse additional capital considering the Project's continuous losses; and

c. Henceforth, direct the Special Projects Group to evaluate thoroughly any planned projects/business proposals before NDC will enter and invest in such undertakings, with the end view of protecting the interest of the government.

The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on June 14, 2023, are presented in detail in Part II of the report.

In a letter of even date, we requested the Corporation's General Manager to take appropriate action on the recommendations contained in the report and to inform this Office of the actions taken thereon 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

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
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

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

CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4 – INDUSTRIAL AND AREA DEVELOPMENT

June 21, 2023

ReceiveD
JUN 23 2023
Christine Joy M. Llagas 6-23-23
OFFICE OF THE GENERAL MANAGER
NATIONAL DEVELOPMENT COMPANY

MR. ANTONILO DC. MAURICIO
General Manager
National Development Company
116 Tordesillas Street,
Salcedo Village, Makati City

Sir:

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 National Development Company (NDC) for the years ended December 31, 2022 and 2021.

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

The Auditor expressed an unmodified opinion on the fairness of presentation of the financial statements of the Corporation.

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

1. The investment properties amounting to P458.988 million with an aggregate area of 122,842 square meters (sq.m.) acquired by NDC through dividend, donation and assignment were still not covered by Transfer Certificates of Title thereby negating management's assertion of its rights and obligations pertaining thereto.

   We reiterated our prior years' recommendation that Management exert utmost effort to expedite the titling of these untitled lands in NDC's name to establish rights and ownership over said properties.

   Further, we recommended that Management direct the Assistant General Manager of Asset Management Group to coordinate with concerned local government units to seek assistance in clearing some of the properties from informal settlers to avoid possible delays/disputes that may arise when the same will be developed or leased.

2. The faithful representation of the balance of the Rental Receivable account amounting to P57.883 million could not be established due to unreconciled variances in the total amount

of P29.384 million between the balance per books and confirmed balances of the accounts with various lessees.

We recommended that Management:

a. Review the recording of monthly accrual based on the noted variances, reconcile with the corresponding lessees and prepare adjusting entries, if warranted;

b. Demand payment from lessees with overdue accounts and consider applying penalties and/or interests in accordance with the terms and conditions of their lease contracts; and

c. Coordinate with the representatives of Manila Pest Control, Al Amanah Islamic Bank of the Philippines, Senate of the Philippines and Spectrum Engineering and Consultancy to finally reconcile and settle their long outstanding accounts.

3. The compensation price on the negotiated sale of 13,297.97 sq. m. of Pandacan property, subject to the Right-of-Way (ROW) of the Metro Manila Skyway Stage 3 (MMSS3) Project amounting to P757.984 million was not yet finalized despite the lapse of more than four years since the undertaking of the Road ROW acquisition in February 2018 by the Department of Public Works and Highways (DPWH) and remained outstanding after completion of the project in January 2021, resulting in foregone revenue or lost income opportunities for the Corporation.

   We reiterated our prior year's recommendations with modification that Management:

   a. Continuously coordinate with the Toll Regulatory Board (TRB) and DPWH to expedite the execution of the Memorandum of Agreement (MOA) for the immediate resolution of the issue on the ROW acquisition of the Pandacan property and the corresponding compensation thereof;

   b. Consider the inclusion of legal interest in the computation of the compensation price for the property covered in ROW acquisition for MMSS3 Project and negotiate the same with TRB and DPWH, pursuant to Section 5 of Republic Act No. 10752 as implemented by Section 6.11 of its Implementing Rules and Regulations; and

   c. Demand compensation from the contractors of the Project for the unauthorized use of the property in the absence of a lease agreement.

4. The value of NDC's investment amounting to P45 million in the Rizal Hydropower Project located in Rizal, Nueva Ecija has significantly decreased due to share in losses amounting to P8.974 million since the Project's commercial operation in July 2016, hence, return of investment may not be realized within the targeted payback period of eight years.

   We recommended that Management:

   a. Study the options available for NDC to recover its investment in the Project, such as the intention to sell the Project by the Philippine National Oil Company Renewables Corporation and consider the grounds for termination of the MOA as provided in Section 16.2 thereof, if based on assessment, the existing conditions adversely affect the operations and disadvantageous to the partners;

b. Assess/evaluate the current operational status and viability of the Project if it is still feasible and reasonable for NDC to infuse additional capital considering the Project's continuous losses; and

c. Henceforth, direct the Special Projects Group to evaluate thoroughly any planned projects/business proposals before NDC will enter and invest in such undertakings, with the end view of protecting the interest of the government.

The other audit observations, together with recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on June 14, 2023, 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 form (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

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
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

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

ANNUAL AUDIT REPORT

on the

NATIONAL DEVELOPMENT COMPANY

For the Years Ended December 31, 2022 and 2021

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 (DTI).

The Corporation'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 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 government's shareholder value and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

The Corporation 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, 2022, NDC has 26 permanent employees and 15 contractual employees.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

	2022	2021 (As restated)	Increase (Decrease)
Assets	31,561,227,058	26,196,336,827	5,364,890,231
Liabilities	6,985,017,661	5,647,293,362	1,337,724,299
Equity	24,576,209,397	20,549,043,465	4,027,165,932

Comparative Results of Operations

	2022	2021 (As restated)	Increase (Decrease)
Income	5,640,182,498	3,013,694,635	2,626,487,863
Expenses	185,309,227	179,030,726	6,278,501
Income before income tax	5,454,873,271	2,834,663,909	2,620,209,362
Income tax expense	1,358,842,299	289,305,237	1,069,537,062
Net Income	4,096,030,972	2,545,358,672	1,550,672,300

SCOPE AND OBJECTIVES 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, 2022 in accordance with International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2022 and 2021. Also, we conducted our audits to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

We rendered an unmodified opinion on the fairness of presentation of the financial statements of the Corporation for the years 2022 and 2021.

SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. The investment properties amounting to P458.988 million with an aggregate area of 122,842 square meters (sq.m.) acquired by NDC through dividend, donation and assignment were still not covered by Transfer Certificates of Title thereby negating management's assertion of its rights and obligations pertaining thereto.

   We reiterated our prior years' recommendation that Management exert utmost effort to expedite the titling of these untitled lands in NDC's name to establish rights and ownership over said properties.

   Further, we recommended that Management direct the Assistant General Manager of Asset Management Group to coordinate with concerned local government units to seek assistance in clearing some of the properties from informal settlers to avoid possible delays/disputes that may arise when the same will be developed or leased.

2. The faithful representation of the balance of the Rental Receivable account amounting to P57.883 million could not be established due to unreconciled variances in the total amount of P29.384 million between the balance per books and confirmed balances of the accounts with various lessees.

We recommended that Management:

a. Review the recording of monthly accrual based on the noted variances, reconcile with the corresponding lessees and prepare adjusting entries, if warranted;

b. Demand payment from lessees with overdue accounts and consider applying penalties and/or interests in accordance with the terms and conditions of their lease contracts; and

c. Coordinate with the representatives of Manila Pest Control, Al Amanah Islamic Bank of the Philippines, Senate of the Philippines and Spectrum Engineering and Consultancy to finally reconcile and settle their long outstanding accounts.

3. The compensation price on the negotiated sale of 13,297.97 sq. m. of Pandacan property, subject to the Right-of-Way (ROW) of the Metro Manila Skyway Stage 3 (MMSS3) Project amounting to P757.984 million was not yet finalized despite the lapse of more than four years since the undertaking of the Road ROW acquisition in February 2018 by the Department of Public Works and Highways (DPWH) and remained outstanding after completion of the project in January 2021, resulting in foregone revenue or lost income opportunities for the Corporation.

   We reiterated our prior year's recommendations with modification that Management:

   a. Continuously coordinate with the Toll Regulatory Board (TRB) and DPWH to expedite the execution of the Memorandum of Agreement (MOA) for the immediate resolution of the issue on the ROW acquisition of the Pandacan property and the corresponding compensation thereof;

   b. Consider the inclusion of legal interest in the computation of the compensation price for the property covered in ROW acquisition for MMSS3 Project and negotiate the same with TRB and DPWH, pursuant to Section 5 of Republic Act No. 10752 as implemented by Section 6.11 of its Implementing Rules and Regulations; and

   c. Demand compensation from the contractors of the Project for the unauthorized use of the property in the absence of a lease agreement.

4. The value of NDC's investment amounting to P45 million in the Rizal Hydropower Project located in Rizal, Nueva Ecija has significantly decreased due to share in losses amounting to P8.974 million since the Project's commercial operation in July 2016, hence, return of investment may not be realized within the targeted payback period of eight years.

   We recommended that Management:

   a. Study the options available for NDC to recover its investment in the Project, such as the intention to sell the Project by the Philippine National Oil Company Renewables Corporation and consider the grounds for termination of the MOA as provided in Section 16.2 thereof, if based on assessment, the existing conditions adversely affect the operations and disadvantageous to the partners;

b. Assess/evaluate the current operational status and viability of the Project if it is still feasible and reasonable for NDC to infuse additional capital considering the Project's continuous losses; and

c. Henceforth, direct the Special Projects Group to evaluate thoroughly any planned projects/business proposals before NDC will enter and invest in such undertakings, with the end view of protecting the interest of the government.

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

As at December 31, 2022, the unsettled Notices of Disallowance amounted to P20.845 million. Of this amount, P1.717 million is with Petition for Review on Certiorari filed with the Supreme Court on May 9, 2011. The amount of P15 million was not settled despite issuance of COA Order of Execution dated February 6, 2014, P0.725 million is with Petition for Review dated October 5, 2017 with the COA Commission Proper, P2.822 million is pending resolution by the Commission Proper pursuant to Rule V, Section 7 of the 2009 Revised Rules of Procedure of the Commission on Audit and P0.581 million is with Corporate Government Sector Cluster 4 Decision No. 2020-07 dated June 19, 2020.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 55 audit recommendations embodied in the Calendar Year 2021 and prior years' Annual Audit Reports, 38 were fully implemented/reconsidered and the remaining 17 were not implemented are reiterated in Part II of this Report. Details are presented in Part III of this Report.

TABLE OF CONTENTS

		Page
PART I	**AUDITED FINANCIAL STATEMENTS**	
	Independent Auditor's Report……………………………………………..	1
	Statement of Management's Responsibility for Financial Statements..	4
	Statements of Financial Position………….…………………….……….	5
	Statements of Comprehensive Income……………...……….….….…….	6
	Statements of Changes in Equity………………………………….…….	7
	Statements of Cash Flows………………………………….…………….	8
	Notes to Financial Statements…………………………………………….	9
PART II	**OBSERVATIONS AND RECOMMENDATIONS**	64
PART III	**STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**	144

PART I

AUDITED FINANCIAL STATEMENTS

PART II

OBSERVATIONS AND RECOMMENDATIONS

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
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

Opinion

We have audited the financial statements of National Development Company (NDC), which comprise the statements of financial position as at December 31, 2022 and 2021, 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, 2022 and 2021, and its financial performance and its 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 NDC in accordance with the Code of Ethics for Government Auditors (Code of Ethics) together with the ethical requirements that are relevant to our audit 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 36 to the financial statements which describes the uncertainty related to the outcome of the various civil and tax cases pending before the appellate courts, the lower courts and the Supreme Court. Our opinion is not modified in respect of 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 PFRS, 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 control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 in Note 38 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

ARIEL B. CARAECLE
OIC - Supervising Auditor

June 14, 2023

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, 2022 and 2021, 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. ALFREDO E. PASCUAL
NDC Chairman of the Board

ANTONILO DC. MAURICIO
General Manager

JOYCE ANNE N. ALIMON
Department Manager III-Finance and Administrative Department

June 14, 2023

NDC Building, 116 Tordesillas St., Salcedo Village, Makati City, Philippines, 1227
T: (632) 8840-4838 to 62 / F: (632) 8840-4862 / email: info@ndc.gov.ph
Website: www.ndc.gov.ph

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021
(In Philippine Peso)

	Note	**2022**	2021 (As restated)	January 1, 2021 (As restated)
ASSETS				
Current Assets				
Cash and cash equivalents	7	**255,664,554**	254,749,119	121,621,670
Other investments	8	**1,627,432,908**	1,632,243,702	2,007,064,957
Receivables, net	9	**197,217,835**	196,785,650	202,140,358
Inventories	10	**1,627,648**	1,797,258	1,603,499
Other current assets	11	**32,249,669**	40,598,722	35,474,694
Total Current Assets		**2,114,192,614**	2,126,174,451	2,367,905,178
Non-Current Assets				
Financial assets	12	**1,395,461,736**	1,350,502,786	1,094,593,267
Investments in associates/affiliates	13	**213,995,656**	216,482,931	141,377,186
Investments in subsidiaries	14	**402,315,129**	402,315,129	402,315,129
Other investments	15	**196,446,890**	196,446,890	196,446,890
Receivables, net	9	**79,362,457**	61,563,241	62,747,474
Investment property	16	**27,045,060,679**	21,743,121,151	19,113,579,041
Property and equipment, net	17	**71,941,780**	50,642,341	44,675,919
Other non-current assets	18	**42,450,117**	49,087,907	48,690,290
Total Non-Current Assets		**29,447,034,444**	24,070,162,376	21,104,425,196
TOTAL ASSETS		**31,561,227,058**	26,196,336,827	23,472,330,374
LIABILITIES AND EQUITY				
Current Liabilities				
Financial liabilities	19	**625,201,992**	626,673,299	627,805,774
Inter-agency payables	20	**16,848,402**	7,445,457	8,891,350
Trust liabilities	21	**32,192,806**	35,571,374	37,860,467
Deferred credits/unearned income	22	**9,880,921**	6,136,927	6,052,332
Provisions	23	**316,463,017**	313,909,671	308,469,747
Total Current Liabilities		**1,000,587,138**	989,736,728	989,079,670
Non-Current Liabilities				
Deferred tax liability	31	**5,948,430,092**	4,617,494,743	4,354,384,497
Trust liabilities	21	**36,000,431**	40,061,891	41,390,354
Total Non-Current Liabilities		**5,984,430,523**	4,657,556,634	4,395,774,851
Equity		**24,576,209,397**	20,549,043,465	18,087,475,853
TOTAL LIABILITIES AND EQUITY		**31,561,227,058**	26,196,336,827	23,472,330,374

The notes on pages 9 to 63 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2022 and 2021
(In Philippine Peso)

	Note	**2022**	2021 (As restated)
INCOME			
Business income	24	**301,688,144**	368,634,054
Gains	25	**5,330,323,267**	2,639,664,148
Other non-operating income	26	**8,171,087**	5,396,433
		5,640,182,498	3,013,694,635
EXPENSES			
Personnel services	27	**39,662,090**	37,392,745
Maintenance and other operating expenses	28	**119,891,602**	107,723,202
Financial expenses	29	**3,931,769**	3,762,392
Non-cash expenses	30	**21,823,766**	30,152,387
		185,309,227	179,030,726
INCOME BEFORE INCOME TAX		**5,454,873,271**	2,834,663,909
INCOME TAX EXPENSE			
Current tax	31	**27,906,951**	26,194,991
Deferred tax	31	**1,330,935,348**	263,110,246
NET INCOME		**4,096,030,972**	2,545,358,672
Other comprehensive income	12	**21,580,025**	18,284,865
TOTAL COMPREHENSIVE INCOME		**4,117,610,997**	2,563,643,537

The notes on pages 9 to 63 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2022 and 2021
(In Philippine Peso)

	Note	Share Capital (Note 32)	Share in Revaluation Increments of Associates	Accumulated Other Comprehensive Income	Retained Earnings (Note 33)	Total
Balances, December 31, 2020		**8,602,803,483**	**28,883,100**	**23,194,870**	**9,126,780,790**	**17,781,662,243**
Correction of prior years' errors	33	0	0	0	305,813,610	305,813,610
Balances, January 1, 2021, as restated		**8,602,803,483**	**28,883,100**	**23,194,870**	**9,432,594,400**	**18,087,475,853**
Changes in Equity for 2021						
Net income for the year, as restated		0	0	0	2,545,358,672	2,545,358,672
Dividends	35	0	0	0	(102,075,925)	(102,075,925)
Other comprehensive income for the year						
Unrealized gain on financial assets at FVOCI	12	0	0	18,284,865	0	18,284,865
Balances, December 31, 2021, as restated		**8,602,803,483**	**28,883,100**	**41,479,735**	**11,875,877,147**	**20,549,043,465**
Changes in Equity for 2022						
Net income for the year		0	0	0	4,096,030,972	4,096,030,972
Dividends	35	0	0	0	(90,445,065)	(90,445,065)
Other comprehensive income for the year						
Unrealized gain on financial assets at FVOCI	12	0	0	21,580,025	0	21,580,025
Balances, December 31, 2022		**8,602,803,483**	**28,883,100**	**63,059,760**	**15,881,463,054**	**24,576,209,397**

The notes on pages 9 to 63 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021
(In Philippine Pesos)

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Collection of rentals		**156,376,509**	202,083,273
Collection of interest		**33,145,056**	31,253,194
Dividends received		**17,194,745**	12,810,584
Collection of receivables		**5,236,310**	3,739,838
Miscellaneous collections		**1,859,626**	471,350
Total Cash Inflows		**213,812,246**	250,358,239
Cash Outflows			
Payment to suppliers and service providers		**91,038,466**	84,414,894
Payment of taxes and licenses		**77,647,807**	72,530,637
Payment of salaries and benefits to officers and employees		**33,736,632**	28,144,220
Total Cash Outflows		**202,422,905**	185,089,751
Net cash provided by operating activities		**11,389,341**	65,268,488
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Proceeds/placements on investments		**83,494,196**	168,078,876
Proceeds from disposal of assets		**8,572,123**	1,203,882
Collection of loans		**1,308,320**	714,888
Total Cash Inflows		**93,374,639**	169,997,646
Cash Outflow			
Loan released		**13,500,000**	0
Total Cash Outflow		**13,500,000**	0
Net cash provided by investing activities		**79,874,639**	169,997,646
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Outflow			
Payment of dividends	35	**90,445,065**	102,075,925
Total Cash Outflow		**90,445,065**	102,075,925
Net cash used in financing activities		**(90,445,065)**	(102,075,925)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**96,520**	(62,760)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**915,435**	133,127,449
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**254,749,119**	121,621,670
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**255,664,554**	254,749,119

The notes on pages 9 to 63 form part of these 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 economic development of the country.

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, for the purpose of implementing the economic policies of the National Government and to 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 NDC to be the government's investment arm under the Department of Trade and Industry (DTI). The Corporation'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 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 government's shareholder value and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

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

The Department of Budget and Management approved on May 29, 2003 the new structure of NDC and the required staffing pattern and qualification standards for all positions. The corresponding Implementing Rules and Regulations of EO No. 184 was 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 Corporation'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, 2022 and 2021 were approved and authorized for issue by the Management on June 14, 2023.

2. GOING CONCERN

The coronavirus disease (COVID-19) outbreak is a serious and unprecedented public health threat. On March 11, 2020, the World Health Organization officially declared COVID-19 as 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 the COVID-19. Subsequently, on March 16, 2020, Proclamation No. 929 was signed by the President declaring a State of Calamity throughout the Philippines for a period of six months, unless earlier lifted or extended as circumstances may warrant, and imposed an Enhanced Community Quarantine throughout Luzon.

The effects of community quarantine due to the COVID-19 pandemic in the operation of the Corporation are as follows:

1. In compliance with the directives of the National Government, NDC employees including those under contracts of service are on skeletal force and work from home arrangements.

2. Management has instituted safety protocols in the NDC building to avoid the spread of COVID-19, this includes issuance of interim guidelines on workplace prevention and control of COVID-19, procurement of face mask and face shields for use of all employees and service personnel to protect the personnel from the virus, installation of acrylic dividers on employees' work stations, regular disinfection of the building, use of online applications for meetings and provisions of shuttle services for employees during community quarantine.

3. Additional control measures were also implemented that includes registration of heath declaration forms using StaySafe.ph app, "No mask, No Entry" policy, use of thermal scanning and foot baths at all entry points for all personnel and visitors prior to entry and social distancing protocols.

4. The Building Administrator of NDC building actively participates in the Barangay Bel-Air COVID-19 Quick Response Group for Salcedo Village. The community group was formed as a means for the Barangay to disseminate advisories, discuss issues for resolution and problem management related to COVID-19.

5. The company also urges all its officers and employees to get vaccinated during the quarantine.

Management assessed that the COVID-19 pandemic brought moderate impact to NDC's operations but cannot be considered enough reason to close down its operation in the succeeding years.

3. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Corporation were prepared in accordance with Philippine Financial Reporting Standards (PFRS), which includes 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

The financial statements of the Corporation were prepared using historical cost basis unless otherwise indicated. 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 Corporation 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 Corporation operates. All values represent absolute amounts except when otherwise indicated.

4. NEW AND REVISED ACCOUNTING STANDARDS

<u>Adoption of New and Amended PFRS</u>

a. *Effective in 2022 that are relevant to the Corporation*

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 Corporation adopted effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 9, *Financial Instruments*, Fees in the '10 per cent' test for derecognition of financial liabilities – The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

- Amendments to PFRS 16, *Leases*, Lease Incentives – The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- Amendments to PAS 16, *Property, Plant and Equipment*, Proceeds before Intended Use – This amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, Onerous Contracts - Cost of Fulfilling a Contract – The changes specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

b. *Effective in 2022 that are not relevant to the Corporation*

- Amendments to PFRS 3, *Business Combinations*, Reference to the Conceptual Framework – Reference to the 1989 Framework in paragraph 11 of PFRS 3 Business Combinations was updated to 2018 Framework. Potential conflicts occur as the definition of assets and liabilities in the 2018 Framework differ from those in the 1989 Framework potentially leading to day 2 gains or losses post-acquisition for some balances recognized.

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, Subsidiary as a first-time adopter – The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRS.

- Amendments to PAS 41, *Agriculture*, Taxation in fair value measurements – The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

c. *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, 2022 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements*, Classification of Liabilities as Current or Non-Current – The amendments affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. Clarify that the classification of liabilities as current or non-current (i) should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of liability, (ii) is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, and (iii) settlement refers to the transfer to the counterparty of cash, equity instruments, and other assets or services.

- Amendments to PAS 1*, Presentation of Financial Statements and* PFRS Practice Statement 2*, Making Materiality Judgements,* Disclosure Initiative – Accounting Policies – The amendments aim to help entities provide accounting policy disclosures that are more useful by: (i) replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and (ii) adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

- Amendments to PAS 8*, Accounting Policies, Changes in Accounting Estimates and Errors,* Definition of Accounting Estimates– The amendments introduced a definition of accounting estimates are, "monetary amounts in financial statements that are subject to measurement uncertainty" and to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

- Amendments to PAS 12, *Income Taxes,* Deferred Tax related to Assets and Liabilities from a Single Transaction – The main change is an exemption from the initial recognition exemption provided in PAS 12. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

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.

* Amendment to PFRS 17, *Insurance Contracts*, Initial Application of PFRS 17 and PFRS 9 – Comparative Information – The amendment adds a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of PFRS 17. The overlay allows all financial assets, including those held in respect of activities not connected to contracts within the scope of PFRS 17, to be classified, on an instrument-by-instrument basis, in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of PFRS 9. The overlay can be applied by entities that have already applied PFRS 9 or will apply it when they apply PFRS 17.

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 financial statements of the Corporation.

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 Corporation's financial statements when the Corporation 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 Corporation'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 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 Corporation classifies financial assets as at FVTPL when the financial asset is held for trading; designated upon initial recognition; 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 Corporation 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 asset other than a financial asset 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 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 Corporation'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 to 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 remeasurement 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 Corporation 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, as well as through the amortization process.

Cash and cash equivalents, short-term investments, investments in retail treasury bonds 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 cashflows 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 Corporation 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 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 cost of the investment. 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 Corporation 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 Corporation 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 Corporation 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 Corporation 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 Corporation's historical experience, informed credit assessment including current conditions and forecast of future economic conditions.

The Corporation assumes that the credit risk on a financial asset has increased significantly if it is more than two years past due.

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

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

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

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as 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 Corporation expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Corporation 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 Corporation will not be able to collect all amounts due to it in accordance with the original terms of the receivables or when investment can no longer be recovered.

Derecognition of financial assets

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

On derecognition of 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 Corporation retains an option to repurchase part of a transferred asset), the Corporation 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 Corporation are classified as either financial liabilities or as 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 Corporation's financial statements when the Corporation 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 Corporation'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 Corporation 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 Corporation's documented risk management or investment strategy, and information about the Corporation is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and PAS 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 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 of 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 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 being contigent 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 Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire. 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 Corporation are recognized at the proceeds received, net of direct issue costs.

Retained earnings

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

Investment in Subsidiary

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

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

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

Investment in Joint Venture

A joint venture (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 in respect of 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 Corporation 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 financial and operating policy decisions of the investee 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 Corporation'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 Corporation'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 in which measured at lower of carrying amount and fair value less cost to sell. Under the equity method, investments in associates or joint venture are carried in the statements of financial position at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Corporation's share of losses of an associate exceeds the Corporation's interest in that associate, the Corporation discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Corporation has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Corporation'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 Corporation'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 Corporation discontinues to use 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 Corporation retains interest in the former associate and the retained interest is a financial asset, the Corporation measured 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 disposal of the associate. In addition, the Corporation 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 Corporation 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 they have 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 change. If owner-occupied property becomes an investment property, the Group accounts 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 (major 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 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 the assets are disposed of or when no future economic benefits are expected from these assets. 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 relationship exists 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 which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its 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 the economic benefits will flow to the Corporation and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable services provided in the normal course of business.

Dividend Income

Dividend income is recognized when the Corporation's rights to receive payment have been established, provided that it is probable that the economic benefits will flow to the Corporation 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 decrease in future economic benefit related to a decrease in an asset or an increase in a 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 Corporation as Lessor

The Contract of Lease entered into by the Corporation does not transfer substantially all the risks and benefits of ownership of the asset. The Corporation is engaged in a lease with pre- termination clause of which 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 lease income from the Contract of Lease is recognized in the statement of comprehensive income.

The Corporation determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and 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 expense 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 liability in the statement of financial position is based on the employees' salary grade as of the reporting dates.

Income Tax

Income tax expense represents the sum of the current tax and deferred tax expense.

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 Corporation 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 tax are also recognized in other comprehensive income or directly in equity respectively.

Borrowing Costs

Borrowing costs are interest and other costs that the Corporation 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 Corporation 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 Corporation 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 pretax 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 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 financial statements but are disclosed in the notes to 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. Non-monetary 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. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when 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 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 capitalization threshold from P15,000 to P50,000 of Property and Equipment shall be considered as change in accounting policy and shall be applied retrospectively (COA Circular No. 2022-004 dated May 31, 2022).

Events after 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 period end (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 Corporation 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 assumption 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.

Estimated allowance for impairment of receivables

The Corporation maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on such factors that affect the collectability of the accounts. These factors include, the age of the receivables, the length of the Corporation'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 Corporation made different judgments or utilized different estimates.

At the end of 2022 and 2021, the Corporation has recognized allowance for impairment of receivables in the amount of P6.576 million and P5.555 million, respectively.

Estimating useful lives of property and equipment

The Corporation 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:

	2022	2021
Cash with collecting/disbursing officer	**110,326**	71,890
Cash in banks	**5,554,228**	4,677,229
Cash equivalents	**250,000,000**	250,000,000
	255,664,554	254,749,119

Cash in banks earns interest at the prevailing bank deposit rates. Interest earned on cash in banks amounted to P7,978 and P11,507 in 2022 and 2021, respectively.

Cash equivalents pertains to investment in time deposits in Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) with interest rates ranging from 1.650 to 4.150 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 P1.627 billion and P1.632 billion in 2022 and 2021, respectively. Interest earned on these investments amounted to P43.302 million and P40.211 million in 2022 and 2021, respectively.

9. RECEIVABLES

This account consists of:

	2022	2021 (As restated)
Current		
Interest receivables	**74,433,599**	70,152,733
Rental receivables	**57,883,453**	55,973,100
Due from officers and employees	**866,248**	6,757,910
Other receivables	**321,617,543**	314,908,974
	454,800,843	447,792,717
Allowance for impairment losses	**(257,583,008)**	(251,007,067)
	197,217,835	196,785,650
Non-Current		
Loans receivable	**1,115,088,322**	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	**7,733,188**	3,433,972
Due from National Government	**3,252,878**	3,252,878
	2,276,757,200	2,258,957,984
Allowance for impairment losses	**(2,197,394,743)**	(2,197,394,743)
	79,362,457	61,563,241

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

Rental receivables consists of collectibles from lease 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 outstanding balance for the leased offices located at the ground, 2nd and 12th floors of NDC building. PPPI has been incurring significant losses and was not able to pay its monthly rental payment and assessment fees to NDC. Consequently, in 2017, NDC ceased accruing rental income from PPPI in compliance with Section 7 of Bangko Sentral ng Pilipinas Circular No. 1011, series of 2018, pertaining to Non-Bank Financial Institutions (see Notes 16 and 24).

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

Other receivables includes management fees, guarantee fees, commitment fees, NDC's 50 per cent share from Rizal Hydro Project trade receivables and other receivables.

Loans receivable includes restructured loan to Philippine Mining Development Corporation (PMDC) with a term of up to 10 years starting July 30, 2013. PMDC requested for recomputation 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. The OGCC on October 22, 2021 conducted a Case Management Conference. During 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 has filed a memorandum relative to the complaint for arbitration filed by PMDC against NDC alleging that the P25 million advances made by NDC was for additional equity and not a loan. This also includes loan to GY Real Estate, Inc. amounting to P13.500 million with a term of two years and interest rate of 2.37 per cent per annum.

The loans receivable from PPPI amounting to P291.795 million represents the outstanding principal and accrued interest, exclusive of penalties for 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 2014, PPPI has been unable to make any installment payments or pay the accrued interest on its restructured loan. In 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. In 2017, a 100 per cent allowance for impairment was provided for the principal and interest outstanding balance of PPPI.

Due from subsidiaries/associates/affiliates consists of advances made to the Corporation's various subsidiaries and affiliates. This also pertains to the various advances to Philippine National Construction Corporation (PNCC) totaling P214 million between 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 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 PMO against PNCC.

- The DOJ, in its February 18, 2014 Consolidated Decision, granted NDC's Petition against PNCC, the dispositive portion of which 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 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 Corporation 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 was filed by PNCC.

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

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

A reconciliation of the allowance for impairment losses at the beginning and end of 2022 and 2021 is shown below:

	2022	2021
Beginning balance	**2,448,401,810**	2,442,846,845
Impairment loss during the year		
Rental receivables	**6,575,941**	5,555,065
Allowance for impairment-rental receivables (reversal)	**0**	(100)
	2,454,977,751	2,448,401,810

10. INVENTORIES

This account consists of the following:

	2022	2021
Inventory Held for Consumption:		
Carrying Amount, January 1	**1,797,258**	1,603,499
Additions/Acquisitions during the year	**1,025,264**	2,619,706
Expensed during the year	**(1,194,874)**	(2,425,947)
Carrying Amount, December 31	**1,627,648**	1,797,258

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:

	2022	2021 (As restated)
Prepayments	**23,929,142**	27,783,159
Restricted fund (held-in-trust)	**8,286,949**	9,402,345
Deposits	**0**	3,353,573
Advances	**33,578**	59,645
	32,249,669	40,598,722

Prepayments includes amounts advanced for insurance of properties, contractor for various projects, input tax and creditable withholding tax.

Restricted fund (held-in-trust) refers to 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 Human Settlements Development Corporation, Southern Philippines Development Authority and NDC. The purpose of the fund includes the full settlement and liquidation of liabilities which were assumed by the shareholders of the old Mintex and eventual distribution of the remaining trust assets. This account also includes the fund for the hydropower project with Philippine National Oil Company Renewables Corporation (PNOC RC) amounting to P45 million. On July 1, 2014, PNOC RC and NDC entered into a Memorandum of Agreement for the development, commercialization, operation and maintenance of 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 with capacity of one megawatt. The plant started commercial operation on July 1, 2016. Cash and cash equivalents from Rizal Hydropower Project amounted to P6.869 million as of December 31, 2022. NDC recognized 50 per cent share amounting to P3.434 million. These are funds reserved for the operation of the project.

Deposits consists mainly of refundable deposits made to various companies for the supply of communication, water, electric and other similar deposits in 2021.

Advances pertains to unliquidated cash advances granted to officers and employees for their official travel, various special events and payment of operating expenses.

12. FINANCIAL ASSETS

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

	2022	2021
Financial assets at amortized cost	**1,262,772,651**	1,239,393,726
Financial assets at fair value through other comprehensive income	**132,689,085**	111,109,060
	1,395,461,736	1,350,502,786

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 interest rates ranging from 2.375 per cent to 4.625 per cent.

Interest earned on these investments amounted to P34.631 million and P31.064 million in 2022 and 2021, respectively.

Financial assets at fair value through other comprehensive income

This account consists of investments in the following:

	2022	2021
Manila Golf and Country Club	**87,500,000**	75,000,000
Philippine Long Distance Telephone Company	**22,659,060**	16,744,195
Makati Sports Club	**850,000**	1,000,000
Philippine Columbian Association	**100,000**	80,000
	111,109,060	92,824,195
Market adjustment	**21,580,025**	18,284,865
	132,689,085	111,109,060

13. INVESTMENTS IN ASSOCIATES/AFFILIATES

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

		% of Ownership	**2022**	2021 (As restated)
Cost				
Refractories Corporation of the Phils.	RCP	33.00	**193,620,979**	193,620,979
San Carlos Bio-Energy, Inc.	SCBI	25.00	**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
PITC Pharma, Inc.	PPI	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 beginning of year			**(293,906,009)**	(369,011,754)
Share in net profit (loss) for the year			**(1,935,470)**	75,396,978
Dividends received			**(551,805)**	(291,233)
Balance at end of year			**(296,393,284)**	(293,906,009)
Share in revaluation increment of an associate			**28,883,100**	28,883,100
Share in prior period adjustment of associates			**(104,467,149)**	(104,467,149)
			418,482,372	420,969,647
Allowance for impairment losses			**(204,486,716)**	(204,486,716)
			213,995,656	216,482,931

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 was diluted from 33 per cent to 11 per cent. The corporation 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, to date.

14. INVESTMENTS IN SUBSIDIARIES

This account consists of the following investment in subsidiaries which the Corporation exercises control over the financial and operating policy decisions of the investee.

		% of Ownership	2022	2021
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 2007 when Clark Development Corporation (CDC), a subsidiary of the Bases Conversion and Development Authority (BCDA), terminated with finality the Lease Agreement, dated October 30, 1997, between CDC and FCCC for failure of FCCC to pay rental fees. Prior to such termination, FCCC and CDC entered into a Memorandum of Agreement (MOA) whereby CDC operated the FCCC leasehold area. However, CDC simultaneously cancelled the said MOA and Lease Agreement. Both NDC and FCCC requested CDC to reconsider such termination but to no avail. As a consequence of CDC's cancellation of the leasehold rights, CDC took over and appropriated the structures and buildings of FCCC erected on the leased area.

The dividend income earned by the Corporation from its investment in subsidiaries amounted to P5.253 million and P1.130 million in 2022 and 2021, respectively.

15. OTHER INVESTMENTS

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

		% of Ownership	**2022**	2021
Common Shares				
Operational				
Asean Bintulu Fertilizer Sdn. Bhd.	ABFSB	9.50	**158,895,989**	158,895,989
Science Park of the Philippines	SPP	5.18	**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	12.50	**622,305,756**	622,305,756
Preferred Shares				
Under receivership				
National Steel Corporation	NSC	12.50	**1,196,967,152**	1,196,967,152
Other Investments				
Investments in project (NDC Rattan)			**62,406,520**	62,406,520
Others			**99,455,145**	99,455,145
			2,315,961,526	2,315,961,526
Allowance for impairment losses			**(2,119,514,636)**	(2,119,514,636)
			196,446,890	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, 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 which sets 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.

The Corporation's primary consideration in consenting to the sale is twofold. Firstly, the national interest was taken into account given the government's commitment to reopen NSC at the soonest time possible and the mandate given to the Department of Trade and Industry to facilitate the same. Secondly, NDC's corporate interest was also considered with the opportunity to recover partially its investments in NSC that was unlikely in the first place given the liquidation status of NSC.

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 from the time the NSC plant assets were turned over to it in 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 stand-by 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) of the sale of NSC assets. While NDC has signed the Accession Agreement, a document which 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 US$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 US$1.043 billion with respect to the Lost Land Claim. 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") which set aside the arbitral Award in its entirety. In addition, the High Court granted the Secured Creditors' claims for the payment of its legal costs for the proceedings in the court, 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 in part and dismissed in part Global Steel's appeals. 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 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 the intent of Platinum Paramount Pacific Group of Companies Inc. 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 with their Philippine partner, Platinum Paramount Pacific Group of Companies, Inc. submitted their letter of intent for the acquisition of NSC including all its assets.

The dividend income earned by the Corporation from its investment in stocks amounted to P11.390 million for 2022 and 2021.

16. INVESTMENT PROPERTY

The Corporation's investment properties consist of 54 parcels of land, three buildings, one condominium unit and one residential house located in various cities and municipalities across the country with an aggregate area of 33,155,746.65 square meters (sq. m.). These properties include land and buildings that are held to earn rentals under operating leases and intended for capital appreciation and project development. Details are as follows:

Investment Properties with lease

Location of the Property	**2022**	2021 (As restated)
Land		
Philphos Assets-LIDE	**6,550,820,760**	2,930,630,340
M Fortich/Libona, Bukidnon	**1,601,830,000**	1,300,090,000
Sen. Gil Puyat, Makati City	**1,065,127,000**	885,370,000
Lapu-Lapu City, Cebu	**1,030,660,000**	965,300,000
Isabel, Leyte	**821,486,900**	758,295,600
Tordesillas St., Salcedo Village, Makati City	**571,140,000**	386,970,000
Barangka, Mandaluyong City	**557,130,000**	547,280,000
P.Tamo & Dela Rosa Sts., Makati City	**436,740,000**	400,120,000
Pingag, Matlang, Isabel, Leyte	**306,918,000**	306,918,000

Location of the Property	2022	2021 (As restated)
Bagong Ilog, Pasig City	**203,530,000**	182,100,000
Diliman, Quezon City	**199,462,500**	190,350,000
Bugo Dist., Cagayan De Oro City	**163,700,000**	144,990,000
San Andres & E. Quirino Ave. Manila	**147,616,000**	144,980,000
San Roque, Tarlac	**28,640,000**	29,680,000
Aguinaldo & Luna Sts., Iligan City	**25,300,000**	27,130,000
San Fernando, Pampanga	**17,480,000**	13,600,000
	13,727,581,160	9,213,803,940
Buildings		
Industry & Investment Building	**209,942,102**	164,710,000
NDC Building	**100,473,000**	96,870,000
Manila Luxury Condominium	**15,824,000**	15,840,000
Leyte Port Complex	**925,400**	1,060,000
	327,164,502	278,480,000
	14,054,745,662	9,492,283,940

Investment Properties without lease

Location of the Property	2022	2021 (As restated)
Land		
Macapagal Blvd., Pasay City	**6,203,943,000**	6,165,880,000
Pandacan, Manila	**2,256,207,750**	2,266,240,000
Sucat, Muntinlupa	**1,740,530,000**	1,596,760,000
Toril, Davao City	**823,663,500**	524,150,000
Dasmarinas, Cavite	**755,300,000**	632,440,000
San Juan St., Bacolod City	**364,240,000**	298,250,000
Kamagong & Sampaloc Sts., Makati City	**285,112,000**	207,240,000
Lacson & Rizal Sts., Bacolod City	**104,480,000**	104,480,000
San Dionisio, Parañaque	**44,920,000**	49,770,000
Meycauyan, Bulacan	**41,850,000**	50,740,000
Sta. Fe, Bantayan, Cebu	**41,320,000**	40,260,000
Hermosa, Bataan	**40,000,000**	40,000,000
San Francisco Del Monte, Quezon City	**39,870,000**	37,010,000
Bo. San Juan & Sto. Nino Pampanga	**38,500,000**	31,970,000
Sambag, Cebu	**36,900,000**	37,580,000
Los Baños, Laguna	**29,400,000**	29,380,000
Baliwasan, Zamboanga City	**25,870,000**	26,716,000
Bo Bia-an, Mariveles, Bataan	**20,670,000**	19,390,000
Dao, Tagbilaran, Bohol	**18,990,000**	13,770,000
Sta. Mesa, Manila	**13,295,767**	14,996,211
Poblacion, Parang, Cotabato	**12,980,000**	8,980,000
Bo. Langhian, Butuan City	**9,860,000**	7,890,000
Puerto, Cagayan de Oro City	**9,390,000**	11,060,000
Sta. Rosa, Laguna	**7,560,000**	8,490,000
Suyong, Echague, Isabela	**6,920,000**	7,500,000
Bonot, Legaspi City	**2,880,000**	3,120,000
Bongabon, Nueva Ecija	**2,680,000**	2,140,000
Calatagan, Batangas	**2,490,000**	2,490,000

Location of the Property	2022	2021 (As restated)
Cagayan de Oro City	**2,480,000**	2,410,000
San Roque, Antipolo City	**1,494,000**	0
Mariveles, Bataan	**1,400,000**	1,000,000
Tanay, Rizal	**1,270,000**	1,360,000
San Jose, Antipolo City	**1,000,000**	975,000
Talakag, Bukidnon	**810,000**	860,000
San Isidro, Antipolo City	**780,000**	1,060,000
Pueblocillo Village, Dasmarinas Cavite	**663,000**	510,000
Porac, Pampanga	**350,000**	380,000
Guadalupe, Cebu City	**0**	3,340,000
	12,990,069,017	12,250,587,211
Buildings		
Pueblocillo Village, Dasmarinas Cavite	**246,000**	250,000
	12,990,315,017	12,250,837,211
	27,045,060,679	21,743,121,151

The Corporation uses the Fair Value Model for its investment properties. Fair market value of investment properties as of December 31, 2022 was appraised by Cal-Fil Appraisal and Management, Inc.

The lease income earned and the operating expenses of the Corporation arising from these investment properties are as follows:

	2022	2021 (As restated)
Investment Properties with lease		
Lease income	**204,637,914**	186,401,844
Operating Expenses	**30,488,634**	24,976,233
Investment Properties without lease		
Operating Expenses	**28,192,704**	24,729,131

Operating expenses consist of real property taxes, security services and repairs and maintenance of the properties.

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 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 only acquire 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 acquisition of the remaining areas not covered by the ROW shall be the subject of the adjudication and appropriate action by the Department of Justice. TRB will officially send a letter-offer to NDC to purchase the portion of the property directly affected by the said ROW at a price based on the property's reappraised market value and shall secure approval for a Permit to Enter (PTE) for the works on the additional area requirement of the MMSS3 Project. On December 9, 2022, NDC Management sought policy direction from the Board on the issue of the payment of just compensation for the subject property and the pending request of DPWH for a PTE to continue the works pertaining to the alignment of the MMSS3 Project to the North Luzon Expressway-South Luzon Expressway Connector Road. The Board agreed for the issuance of PTE, subject to the execution of a Memorandum of Agreement among NDC, DPWH and TRB, which shall include, among others: a) payment to NDC of the 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.

The Management was likewise instructed by the Board to conduct a Highest and Best Use (HABU) study for the remaining portion of the subject property. The procurement process for the engagement of a third-party consulting firm to conduct the HABU study is now underway. On December 22, 2022, the representatives of NDC, TRB, and DPWH had a meeting to discuss the NDC Board directives.

The property located in San Dionisio, Parañaque 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 2015, when 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 the same 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.

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, 2022					
Cost					
At January 1, 2022	611,010,268	13,582,833	681,018,466	34,147,886	1,339,759,453
Additions	0	25,527,656	242,305	0	25,769,961
Adjustments	(83,527)	(236,368)	(15,654,585)	(98,078)	(16,072,558)
At December 31, 2022	610,926,741	38,874,121	665,606,186	34,049,808	1,349,456,856

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Rizal Hydro-power Plant	Total
Accumulated depreciation					
At January 1, 2022	608,871,559	5,862,098	666,887,570	7,495,885	1,289,117,112
Depreciation for the year	353,370	0	3,681,095	0	4,034,465
Adjustments	(94,536)	(225,369)	(16,656,909)	1,340,313	(15,636,501)
At December 31, 2022	609,130,393	5,636,729	653,911,756	8,836,198	1,277,515,076
Net carrying amount, December 31, 2022	**1,796,348**	**33,237,392**	**11,694,430**	**25,213,610**	**71,941,780**

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Rizal Hydro-power Plant	Total (As restated)
December 31, 2021					
Cost	611,010,268	13,582,833	681,018,466	34,147,886	1,339,759,453
Accumulated Depreciation/ Adjustment	(608,871,559)	(5,862,098)	(666,887,570)	(7,495,885)	(1,289,117,112)
Net carrying amount, December 31, 2021	**2,138,709**	**7,720,735**	**14,130,896**	**26,652,001**	**50,642,341**

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 Rizal Hydro Power Plant Facility located at Rizal, Nueva Ecija.

18. OTHER NON-CURRENT ASSETS

This account consists of:

	2022	2021
Other non-current assets		
Restricted fund (held-in-trust)	**15,238,134**	20,383,278
Lands not used in operation	**9,794,104**	6,614,104
Deposits	**1,972,756**	0
Prepayments	**124,455**	0
Others	**982,971,125**	982,971,125
Allowance for impairment loss	**(968,478,762)**	(961,708,905)
	41,621,812	48,259,602
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
	42,450,117	49,087,907

Restricted fund (held-in-trust) refers to Mintex escrow fund invested in retail treasury bonds with maturity date of more than one year (see Note 11).

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 of the Department of Agrarian Reform (DAR). The Landbank of the Philippines have 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 consists mainly of long-term refundable deposits made to various companies for the supply of communication, water, electric and other similar deposits.

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

Others principally includes assets acquired from the former International Corporate Bank (ICB) amounting to P962.11 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 Memorandum of Agreement 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 interest to the Coal Operating Project from Vulcan Industrial and Mining Corporation (VIMC). The project, however, did not commence commercial operations and the account had been outstanding since 1980. The amount of the project, which was provided with a 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:

	2022	2021 (As restated)
Interest payable	**461,158,311**	461,158,311
Loans payable	**144,051,930**	144,051,930
Accounts payable	**19,194,737**	21,163,540
Due to officers and employees	**797,014**	299,518
	625,201,992	626,673,299

Interest payable pertains to the interest on advances from the Bureau of the Treasury and domestic loans from Dole Philippines, Inc.

Loans payable consists of guarantee fees amounting to P140 million for the 2nd tranche bond floatation of NDC Agri-Agra bonds and outstanding loan amounting to P4.052 million from Dole Philippines, Inc.

Accounts payable consists of various expenditures already incurred but remained unpaid as of statement of financial position date.

Due to officers and employees represents various unpaid personnel services, terminal leave and claims of former NDC employees who are already retired/resigned.

20. INTER-AGENCY PAYABLES

This account consists of:

	2022	2021
Due to Treasurer of the Philippines	**7,213,718**	0
Income tax payable	**5,582,909**	4,284,709
Due to Bureau of Internal Revenue (BIR)	**3,327,773**	3,141,475
Due to Government Service Insurance System (GSIS)	**628,410**	11,173
Due to Pag-IBIG	**28,818**	8,100
Due to PhilHealth	**66,774**	0
	16,848,402	7,445,457

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

Income tax payable pertains to the Corporation'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 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 the employees' salaries and employer share for remittance to the concerned offices.

21. TRUST LIABILITIES

This account consists of:

	2022	2021
Current	**32,192,806**	35,571,374
Non-current	**36,000,431**	40,061,891
	68,193,237	75,633,265

Current account refers to an escrow account for the shareholders of a former affiliate, bid bonds and performance security received from bidders and suppliers.

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

22. DEFERRED CREDITS/UNEARNED INCOME

This account pertains mainly to advance rental received from various lessees amounting to P9.881 million and P6.137 million in 2022 and 2021, respectively.

In relation to the leases with various tenants, advance rentals are received by the Corporation upon signing of 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:

	2022	2021
Settlement of legal cases	**310,052,055**	306,297,349
Leave benefits	**6,410,962**	7,612,322
	316,463,017	313,909,671

The settlement of legal cases represents payable to Sta. Ines Melale Forest Products Corporation (Sta. Ines), et al., involving a case filed for collection of 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 interest of six per cent per annum from date of the filing of the case in 1985 up to full payment plus ten 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 with 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 satisfaction of the judgment award. NDC filed a Motion for Reconsideration of the said Decision. The CA, on July 21, 2010, 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 SC Resolution, dated December 12, 2011, requiring NDC to file its comment to 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 Motion to Consolidate Case.

On February 1, 2017, the SC rendered Decision affirming the March 24, 2010 Decision and 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 Motion to Refer 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 motion to refer 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.

Leave benefits pertains to the accrual of money value of leave credits earned by NDC employees as of December 31, 2022 and 2021, respectively.

24. BUSINESS INCOME

This account consists of the following:

	2022	2021 (As restated)
Lease income	**204,637,914**	186,401,844
Interest income	**80,267,290**	75,094,778
Dividend income	**16,642,940**	12,519,351
Management fees	**140,000**	140,000
Share in profit of associates/affiliates	**0**	94,478,081
	301,688,144	368,634,054

Lease income represents the revenue derived from the Corporation'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 option to renew clauses. Escalation rate ranging from six per cent to ten per cent were imposed either yearly or on specific intervals while in certain cases, escalation rate is based on actual inflation rate, some lease contracts contain provisions stating that the lessee shall pay the real property taxes for the leased premises.

The lease income earned by the Corporation from its investment properties under operating leases amounted to P204.638 million and P186.402 million in 2022 and 2021, respectively. Meanwhile, direct operating expenses consisting of real property taxes, security services and repairs and maintenance of the properties incurred from these investment properties amounted to P30.489 million and P24.976 million in 2022 and 2021, respectively (see Note 16).

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

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

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

Share in profit of associates/affiliates pertains to proportionate share in the profit of investee under investment in associates in 2021.

25. GAINS

This account consists of the following:

	2022	2021
Gain from changes in fair value of Investment Property	**5,300,964,870**	2,629,716,170
Gain on foreign exchange	**23,487,524**	9,762,306
Gain on sale of Investment Property	**5,870,873**	185,672
	5,330,323,267	2,639,664,148

Gain from changes in fair value of investment property pertains to the net increase in fair value of investment properties based on the appraisal conducted in 2022 and 2021.

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

Gain on sale of investment property pertains to the gain arising from disposal of a portion of the Sta. Mesa, Manila property and the Iponan, Cagayan de Oro property.

26. OTHER NON-OPERATING INCOME

This account consists of the following:

	2022	2021
Sale of unserviceable property	**1,383,718**	5,000
Reversal of impairment loss	**0**	100
Miscellaneous income	**6,787,369**	5,391,333
	8,171,087	5,396,433

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

Reversal of impairment loss was due to collection of other receivables in 2021.

Miscellaneous income pertains to income from assessment charges from lessees and income arising from excess of standard input value added tax (VAT) for sales of goods and services to government over actual input VAT as required by the Bureau of Internal Revenue.

27. PERSONNEL SERVICES

This account consists of the following:

	2022	2021 (As restated)
Salaries and wages	**25,545,103**	23,149,875
Other compensation	**8,322,366**	7,915,618
Personnel benefit contributions	**3,535,276**	3,065,753
Other personnel benefits	**2,259,345**	3,261,499
	39,662,090	37,392,745

28. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2022	2021 (As restated)
Taxes and licenses	**51,756,564**	45,478,375
General services	**33,911,924**	30,129,963
Professional services	**14,329,610**	16,258,269

	2022	2021 (As restated)
Repairs and maintenance	**4,583,278**	4,330,519
Supplies and materials	**3,623,228**	2,425,947
Utility	**3,398,681**	2,367,925
Confidential, intelligence and extraordinary	**2,609,531**	1,627,310
Communication services	**1,221,818**	1,441,658
Traveling	**744,994**	427,499
Training and scholarship	**352,084**	130,765
Other maintenance and operating expenses	**3,359,890**	3,104,972
	119,891,602	107,723,202

29. FINANCIAL EXPENSES

This account consists of the following:

	2022	2021
Interest expenses	**3,754,706**	3,754,709
Bank charges	**177,063**	7,683
	3,931,769	3,762,392

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

Bank charges pertains to the fee charged by bank for manager's check and treasury bills.

30. NON-CASH EXPENSES

This account consists of the following:

	2022	2021 (As restated)
Impairment loss	**13,345,798**	5,555,065
Depreciation	**4,034,465**	3,924,523
Share in the loss of joint venture	**2,506,968**	1,588,177
Share in the loss of associates/affiliates	**1,935,470**	19,081,103
Loss on foreign exchange	**1,065**	3,519
	21,823,766	30,152,387

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

Depreciation pertains to the periodic allocation of cost for the wear and tear of the Corporation'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 loss of Rizal Hydro Power Project.

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

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

31. INCOME TAX EXPENSE

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

	2022	2021 (As restated)
Current	**27,906,951**	26,194,991
Deferred	**1,330,935,348**	263,110,246
	1,358,842,299	289,305,237

Reconciliation between statutory tax and effective tax is as follows:

	2022	2021 (As restated)
Income tax at statutory rate	**1,365,418,622**	683,076,791
Dividend income not subject to income tax	**(4,160,735)**	(3,129,838)
Impairment/share in net loss of affiliates	**0**	(146,776)
Income subjected to final tax	**(19,485,352)**	(17,821,467)
Other reconciling items	**17,069,764**	(372,673,473)
	1,358,842,299	289,305,237

An analysis of deferred tax asset and deferred tax liabilities are as follows:

	2022	2021 (As restated)
Deferred tax assets on:		
Allowance for impairment	**613,744,437**	612,100,453
Unrealized foreign exchange gain	**(5,871,881)**	(2,439,697)

	2022	2021 (As restated)
Deferred tax liabilities on:		
Rental receivables	**(14,470,863)**	(13,993,275)
Interest receivables	**(18,608,400)**	(17,538,183)
Investment property	**(6,523,223,385)**	(5,195,624,041)
Net deferred tax liability	**(5,948,430,092)**	(4,617,494,743)

32. SHARE CAPITAL

This account represents the capital infusion of the National Government (NG) from 1937 to 2002 aggregating to P8.600 billion. The Corporation 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.

33. RESTATEMENT OF ACCOUNTS

The 2021 financial statements were restated to reflect the following transactions/adjustments:

<u>CY 2020 errors discovered in 2021 and 2022</u>

	December 31, 2020 (As previously reported)	**Restatements/ Adjustments**	**January 1, 2021 (As restated)**
STATEMENT OF FINANCIAL POSITION			
Receivables, net-current	**201,799,800**	**340,558**	**202,140,358**
Over and under accrual of rental receivables		*340,558*	
Other current assets	**35,486,038**	**(11,344)**	**35,474,694**
Non reclassification of prepayments to expense		*(11,344)*	
Investment property	**18,806,661,041**	**306,918,000**	**19,113,579,041**
Recognition of Sitio Pingag, Barangay Matlang, Isabel, Leyte property		*306,918,000*	
Property and equipment, net	**47,074,176**	**(2,398,257)**	**44,675,919**
Reclassification of PE items to semi-expendable expense pursuant COA Circular No. 2022-004 dated May 31, 2022		*(2,398,257)*	
Restatement on total assets-increase		304,848,957	
Financial liabilities	**628,770,427**	**(964,653)**	**627,805,774**
Over and under accrual of various maintenance and other operating expenses		*(964,653)*	
Restatement on total liabilities-decrease		(964,653)	
Restatement on statement of financial position-net increase		**305,813,610**	

CY 2021 errors discovered in 2022

	December 31, 2021 (As previously reported)	Restatements/ Adjustments	December 31, 2021 (As restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net-current	**187,200,824**	**9,584,826**	**196,785,650**
Over and under accrual of rental receivables		*9,584,826*	
Other current assets	**40,679,391**	**(80,669)**	**40,598,722**
Non reclassification of prepayments to expense		*(11,344)*	
Adjustment on 50% interest in the joint operation with PNOC RC		*(69,325)*	
Investment in associates/affiliates	**122,004,850**	**94,478,081**	**216,482,931**
Adjustment on investments related to equity share under investment in associates		*94,478,081*	
Investment property	**21,436,203,151**	**306,918,000**	**21,743,121,151**
Recognition of Sitio Pingag, Barangay Matlang, Isabel, Leyte property		*306,918,000*	
Property and equipment, net	**53,040,598**	**(2,398,257)**	**50,642,341**
Reclassification of PE items to semi-expendable expense pursuant COA Circular No. 2022-004 dated May 31, 2022		(2,398,257)	
Restatement on total assets-net increase		408,501,981	
Financial liabilities	**626,345,865**	**327,434**	**626,673,299**
Over and under accrual of various maintenance and other operating expenses		*(899,246)*	
Under accrual of salaries, allowances and benefits		*1,226,680*	
Deferred tax liability	**4,615,098,537**	**2,396,206**	**4,617,494,743**
Adjustment of deferred tax due to restatement of 2021 accounts		*2,396,206*	
Add: Restatement on total liabilities-net increase		2,723,640	
Restatement on statement of financial position-net increase		**405,778,341**	
STATEMENT OF COMPREHENSIVE INCOME			
Lease income	**177,157,576**	**9,244,268**	**186,401,844**
Under accrual of rental receivables		*9,244,268*	
Share in the profit of associates/affiliates	**0**	**94,478,081**	**94,478,081**
Under accrual of share in the profit of associates/affiliates		*94,478,081*	
Personnel services	**36,166,065**	**1,226,680**	**37,392,745**
Under accrual of salaries, allowances and benefits		*1,226,680*	
Maintenance and other operating expenses	**107,657,795**	**65,407**	**107,723,202**
Over and under accrual of various maintenance and other operating expenses		*65,407*	

	December 31, 2021 (As previously reported)	Restatements/ Adjustments	December 31, 2021 (As restated)
Non-cash expenses	**30,083,062**	**69,325**	**30,152,387**
Adjustment on 50% interest in the joint operation with PNOC RC		*69,325*	
Income tax expense-deferred tax	**260,714,040**	**2,396,206**	**263,110,246**
Adjustment of deferred tax due to restatement of 2021 accounts		*2,396,206*	
Restatement on other comprehensive income-net increase		**99,964,731**	
Total restatement on 2021 financial statements		**505,743,072**	

The Corporation 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.

34. RELATED PARTIES

Key Management includes the board of directors, all members of Management and other Corporation officers. Key Management compensation totaled P12.802 million and P10.192 million in 2022 and 2021, respectively. A breakdown of these amounts follows:

	2022	2021
Salaries and allowances	**10,885,428**	8,203,249
Other benefits	**1,916,471**	1,988,391
	12,801,899	10,191,640

35. COMPLIANCE WITH REPUBLIC ACT (RA) No. 7656

Pursuant to RA No. 7656, requiring government-owned or controlled corporations and their subsidiaries to declare dividends under certain conditions and remit the same to the National Government, NDC remitted to the Bureau of the Treasury P90.445 million and P102.076 million in Calendar Years (CYs) 2022 and 2021, respectively. Similarly, the NDC subsidiaries remitted total dividends of P5.253 million and P1.130 million in CYs 2022 and 2021, respectively, which represent NDC’s share in the dividends.

36. CONTINGENT ASSETS/CONTINGENT LIABILITIES

The Corporation, in the normal course of business, became party to litigations. Cases/petitions were filed for or against NDC and are now pending before the appellate courts, the lower courts and certain administrative bodies. These cases involve civil actions for collection of sum of money, reconveyance of property/title, payment of just compensation, specific performance and action for refund of taxes withheld.

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

The details of NDC pending cases as of December 31, 2022 are as follows:

Title of Case	Nature	Amount	Status
Mero Structures, Inc. vs. Asian Construction FCCC and NDC. G.R. No. 221147 (CA-GR CV No. 98844 Civil Case No. 02-206 RTC Makati, Branch 145).	Sum of money	P5 million	On September 17, 2020, the Office of the Government Corporate Counsel (OGCC) received the Supreme Court's (SC) August 24, 2020 Resolution directing the Court of Appeals (CA) to elevate the complete records of CA GR CV 98844 within 10 days from notice. On September 29, 2021, the SC rendered its Decision affirming the February 18, 2015 Decision and October 21, 2015 Resolution of the Court of Appeals in CA-G.R. CV No. 98844 in favor of Mero Structures Inc. On November 22, 2022, OGCC received the November 14, 2022 Order Re: The Motion for the issuance of a

Title of Case	Nature	Amount	Status
			Writ of Execution is Granted. Accordingly, a writ of execution was issued commanding the sheriff of the Court to execute the Court's Decision dated July 19, 2022, as modified by the Court of Appeals on February 18, 2015.
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 damages of five per cent for the principal obligation and interest.	The court granted NDC's Motion for Execution on September 22, 2014. To date, the court has not issued the Writ of Execution.
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.	Awaiting Order from Regional Trial Court for the submission of position paper. As of December 2022, no other related documents have been received.
Liwanag L. Cruz, et al. vs. Juanito F. Galumo and Register of Deeds of South Cotabato. (Civil Case No. 12-436, 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.	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.

Title of Case	Nature	Amount	Status
			NDC filed a Partial Motion for Reconsideration (MR) praying that the properties be reconveyed instead to NDC. On March 31, 2021, DARBCI filed its Opposition for Partial MR of NDC and Motion for Execution of the Notice of Judgement on the court order. In May 2021, the OGCC filed its Opposition to Motion for Execution and Reply to DARBCI's Opposition to Partial MR of NDC. DARBCI's Rejoinder to the Reply and Reply to the Opposition was received in July 2021.
Primo Gelacio vs. NDC-Guthrie Plantations, Inc. & NDC Luzviminda Gelacio-Bahala vs. NDC 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 Writ of Execution, copy of which was received by NDC on December 11, 2018. To date, no other related documents have been received.
NDC represented by its Asst. General Manager, Esmeraldo E. Sioson vs. DAR, represented by its Provincial Agrarian Reform Officer	Reconveyance	No amount involved as the issue to be resolved is ownership.	On September 17, 2020, OGCC received a copy of SC's July 13, 2020 Resolution noting the comments of Dolefil Agrarian Reform on NDC's Motion for

Title of Case	Nature	Amount	Status
(PARO) Pedro P. Gumbao, et al. (DARAB Case No. 10999. Reg. Case No. XI-608-SC-99).			Reconsideration (MR) dated July 11, 2018 and awaiting 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	The SC remanded the case to RTC for the determination of just compensation.
Heirs of Pacabis vs. NDC. (Civil Case No. 3442-0 Br. 35, Ormoc City).	Determination of just compensation	Per Commissioner's Report, P40 per square meter involving 80,000 sq. m. or approximately P3.2 million (principal only)	On January 20, 2020, the OGCC received a copy of Plaintiff's Motion for Writ of Execution dated January 1, 2020. On December 7, 2020, the OGCC received a copy of the Plaintiff's Third Request for Hearing of the Motion for Writ of Execution dated January 1, 2020. On October 4, 2021, the OGCC received a copy of the petitioner's Manifestation/Motion praying that the case be held in abeyance due to medical reasons.
NDC vs. Commissioner of Internal Revenue.	Refund of taxes	P0.660 million	Submitted for Department of Justice's resolution. OGCC has yet to

Title of Case	Nature	Amount	Status
(DOJ Case No. 91-06).			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 GM 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 involved as the issue to be resolved in this case is ownership.	Filed Answer with Compulsory Counterclaim on August 20, 2009. As of December 31, 2022, no further court order or any related document has been received.
Teodora Denila vs. NDC/DOLE, DARBCI (RTC Br. 36, Gen San City)	Action for annulment of title	- P2.541 million as back rentals - Rental from 1996 up to the present - 20 per cent Attorney's fees	The RTC denied the Motion for Reconsideration filed by NDC. A notice of appeal was filed by NDC to CA on March 2018. The CA ordered the appellants to file their

Title of Case	Nature	Amount	Status
			respective briefs. Awaiting further instructions from CA.
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.	In February 2020, NDC filed its Formal Offer of Evidence. The case is now submitted for Resolution.
NDC vs. Commissioner of Internal Revenue (CIR). (CTA Case No. 9633).	Refund of taxes	P42.603 million	On June 27, 2022, received the June 14, 2022 Resolution, there being no comment filed by respondent CIR, the petitioner's Petition for Review filed on March 17, 2022 is submitted for Decision.

37. GENDER AND DEVELOPMENT

The Corporation allotted P112.689 million for Gender and Development (GAD) program for CY 2022. The GAD fund was utilized for programs that are cognizant of the strict austerity and expenditure-efficiency measures being observed among government agencies, in accordance with the purpose of GAD Plans and Programs. Various activities were undertaken by the Corporation.

38. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth by BIR Revenue Regulations 15-2010, hereunder are the information on taxes, duties and license fees paid during the year:

a. Taxes and licenses (National and Local):

Real estate tax	34,614,107
Mayor's permit	1,364,248
Community tax certificate	10,500
Annual registration-BIR	500
	35,989,355

b. Withholding taxes paid:

Tax on compensation	4,743,767
Creditable withholding taxes	5,055,542
	9,799,309

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The investment properties amounting to P458.988 million with an aggregate area of 122,842 square meters (sq.m.) acquired by NDC through dividend, donation and assignment were still not covered by Transfer Certificates of Title (TCTs) thereby negating management's assertion of its rights and obligations pertaining thereto.

1.1 This is a reiteration of the prior years' audit observation with updated information.

1.2 Rights and obligations is a basic assertion that all assets included in the financial statement belong to the entity. It states that the entity has ownership rights or the right to benefit from recognized assets in the financial statements.

1.3 Review of the Inventory of Land Assets as of January 31, 2023, submitted by the Asset Management Group (AMG) and inspection of TCTs of NDC, disclosed that the following properties valued at P458.988 million were not covered with TCTs under NDC's name although recorded in its books as Investment Properties:

Table 1 – List of Untitled Lands

Location	Area (sq.m.)	Amount	Date of Acquisition	Mode of Acquisition	Status
Sitio Pingag, Barangay Matlang, Isabel, Leyte	85,255	306,918,000	November 23, 1979	Assigned Asset - Leyte Sab-A Basin Development Authority	The 2,000 sq.m. portion of the subject property was leased for a period of three years commencing August 1, 2022 to July 31, 2025, with a monthly rental of P55,262; partly occupied by illegal settlers.
San Dionisio, Parañaque	1,426	44,920,000	September 16, 1983	Assigned Asset - International Corporate Bank (ICB)	With pending ejectment case
Meycauyan, Bulacan	5,231	41,850,000	July 17, 1984	Property Dividend - Crowntex Realty Corp.	Vacant; marketing of property for lease
San Francisco, Del Monte, Quezon City	623	39,870,000	September 16, 1983	Assigned Asset - ICB	NDC requested for reconstitution of title since original owner was nowhere to be found; awaiting issuance of the Order of Finality of Judgment; fully occupied by illegal settlers.

Table 1 – List of Untitled Lands

Location	Area (sq.m.)	Amount	Date of Acquisition	Mode of Acquisition	Status
Bo. Langihan, Butuan City	24,974	9,860,000	May 22, 1975	Donation - Mobil Oil Philippines, Inc.	Agricultural lot for disposal through public bidding. For titling in NDC's name.
Puerto, Cagayan de Oro	3,352	9,390,000	December 18, 1976	Donation - Philippine Packing Corporation	Shall be covered by the Community Mortgage Program; occupied by illegal settlers. For titling in NDC's name.
Bonot, Legazpi City, Albay	400	2,880,000	September 16, 1983	Assigned Asset - ICB	TCT is under the name of ICB, the titling process is ongoing.
Calatagan, Batangas	1,131	2,490,000	September 16, 1983	Assigned Asset - ICB	The issuance of the Certificate Authorizing Registration had been deferred pending the submission of ICB pertinent documents, as requested by BIR. For transfer of title in NDC's name.
Talakag, Bukidnon	450	810,000	September 16, 1983	Assigned Asset - ICB	For transfer of title in NDC's name; subject to disposal
	122,842	**458,988,000**			

1.4 As shown above, large portion of the properties were idle and occupied by informal settlers, hence, these properties being untitled may give rise to possible land disputes, third-party claims and the proliferation of more informal settlers that may not be prevented.

1.5 The documents held by NDC to assert their rights and ownership over the properties are TCTs under the name of previous/original owners and Tax Declarations of Real Property, thus, affecting the legality/validity of ownership or rights of NDC over the said properties.

1.6 Furthermore, as shown in the table above, the titling process of most of the properties is ongoing, however, we noted enormous delay considering that these assets were acquired 38 to 47 years ago.

1.7 In Calendar Years (CYs) 2020 and 2021 audit, we raised the same observation and recommended that Management take appropriate actions to expedite the titling of these untitled lands in NDC's name. However, we noted that these properties were still untitled to date.

1.8 Validation of the submitted Agency Action Plan and Status of Implementation for CY 2021 audit recommendations disclosed that NDC continuously performed the necessary steps in the titling of lands. We noted however, that there was no significant progress/improvement in the titling process. With regard to the properties acquired from ICB, the research, consolidation and collation of relevant supporting documents are still being undertaken to transfer the titles to NDC.

1.9 The absence of TCTs casts doubts on the ownership of these properties recorded in the books of accounts amounting to P458.988 million as of December 31, 2022. Also, further delay in the titling of lands NDC claims to own may result in more legal disputes, if not acted promptly.

1.10 **We reiterated our prior years' recommendation that Management exert utmost effort to expedite the titling of these untitled lands in NDC's name to establish rights and ownership over said properties.**

1.11 **Further, we recommended that Management direct the Assistant General Manager of AMG to coordinate with concerned local government units (LGUs) to seek assistance in clearing some of the properties from informal settlers to avoid possible delays/disputes that may arise when the same will be developed or leased.**

1.12 Management informed that it remains steadfast in its resolve to perfect the titling or transfer of the registration of the subject properties under NDC's name and continues to carry out the action plans to secure the rights over the properties.

1.13 Accordingly, the titling of properties is taking some time considering that it requires gathering and consolidation of old documents due to complexities associated with each property that needs to be addressed before titling can be processed.

1.14 Moreover, Management commented that as a supplemental measure of protection and to ensure that third parties are aware of NDC's rights and claims over the properties, it shall undertake the registration of pertinent instruments evidencing NDC's ownership and rights over the properties with the Registry of Deeds. It shall cause the annotation of the deeds of transfer in the corresponding titles or tax declarations of the properties. Accordingly, the annotation process of San Dionisio, Paranaque and Talakag, Bukidnon properties has already commenced.

1.15 Management informed that with regard to Pingag property, the AMG 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. The Land Management Services (LMS) of the Department of Environment and Natural Resources formed a Composite Team to further verify and validate the areas on the ground. The investigation conducted by the Composite Team revealed that the entire property (Cadastral Lot 5044) is within timberland/forestland. The conversion of the land into A&D will require Congressional approval.

1.16 Accordingly, Management will conduct further studies in pursuing the process of converting the land into A&D and present the matter to the Management Committee and NDC Board for policy directions.

1.17 Management also informed that previously, efforts were undertaken to clear portion of Pingag property from informal settlers in coordination with the LGU of Isabel, Leyte and LIDE Management Corporation (LMC), in consideration of the Pingag Port Project of

NDC. However, these efforts did not materialize due to the lack of available relocation areas for the informal settlers. Management commented that it will be reaching out again to the LGU of Isabel, Leyte and LMC to resolve the matter.

1.18 The Audit Team shall monitor Management's action in the titling of investment properties in the name of NDC.

2. The reliability and verifiability of the Property and Equipment (PE) account with a carrying amount of P71.942 million cannot be ascertained due to: a) continuous recognition of undisposed unserviceable PE costing P513.407 million in the books of accounts; b) inclusion of fully depreciated PE costing P7.183 million that were not physically counted and reported as missing items in the Report on Physical Count of Property, Plant and Equipment (RPCPPE); and c) miscellaneous items amounting to P15.602 million with carrying amount of P8.341 million, were considered counted in the RPCPPE even though such items were recorded in the books of accounts without a detailed breakdown.

2.1 Paragraphs 2.12 and 2.13 of the Conceptual Framework for Financial Reporting states that:

Faithful Representation

xxx. To be useful, financial information must not only be relevant, it must also represent faithfully the phenomena it purports to be. Xxx

A faithful representation seeks to maximize the underlying characteristics of completeness, neutrality and freedom from error.

a. Continuous recognition of undisposed unserviceable PE costing P513.407 million in the books of accounts

2.2 Paragraph 67 of Philippine Accounting Standards (PAS) 16 provides that PE shall be derecognized when no future economic benefits are expected from its use or disposal. The Standard states that:

The carrying amount of an item of property, plant and equipment shall be derecognized:

a. On disposal; or

*b. **When no future economic benefits are expected from its use or disposal.** (Emphasis supplied)*

2.3 As of December 31, 2022, NDC has PE with a total cost of P1.349 billion and accumulated depreciation of P1.278 billion or a carrying amount of P71.942 million. The RPCPPE and accounting records showed that the PE includes fully depreciated unserviceable items amounting to P513.407 million. Out of this amount, P509.887 million pertains to PE located at NDC Port Complex in Leyte Industrial Development Estate, Isabel, Leyte which was devastated by super Typhoon Yolanda in 2013. Details of unserviceable items are presented in Table 2.

Table 2 – Unserviceable PE Items

Account Number	Account Name	Amount
10604010	Buildings	509,886,715
10605020	Office Equipment	2,364,946
10605030	Information and Communication Technology Equipment	926,751
10605130	Sports Equipment	228,749
Total		**513,407,161**

2.4 We acknowledged the efforts of Management in disposing of some of its unserviceable PE in January and April 2023, however, the foregoing PE remained undisposed. The condition of the above items will continuously deteriorate and the salvage value that can be recovered from these items will decrease if not immediately disposed of. Although fully depreciated, it still has significant effect since the total unserviceable items represent 38 per cent of the total PE.

2.5 The unserviceable PE could have been derecognized in the books of accounts if determined that no future economic benefits are expected from its use or disposal as provided in Paragraph 67 of PAS 16.

b. Inclusion of fully depreciated PE costing P7.183 million that were not physically counted and reported as missing items in the RPCPPE

2.6 Review of the RPCPPE disclosed that PE amounting to P7.183 million were not found during the inventory count. These items were noted to be fully depreciated already. Details are shown in Table 3.

Table 3 – Summary of Missing PE Items

Account Number	Account Name	Amount
10605030	Information and Communication Technology Equipment	5,260,222
10606010	Motor Vehicles	1,285,567
10605020	Office Equipment	494,005
10607010	Furniture and fixtures	143,303
Total		**7,183,097**

2.7 Inquiry with the Administrative Unit staff revealed that the missing PE items indicated in the RPCPPE are due to the absence of proper turnover to establish accountability of these missing PE items during the reorganization of NDC in 2003.

2.8 The inclusion of PE items that were not physically counted and reported in the RPCPPE as missing items casts doubt on the reliability of the account balance.

2.9 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 were already disposed or transferred/donated to other government agencies.

2.10 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 demanded to produce/present the items. In the case where the 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 whereabouts of missing PE items. If the accountable person was pinpointed after the investigation, demand shall be made from the personnel, otherwise, authority for derecognition of the missing PE items from the books of accounts may be requested from COA.

c. Miscellaneous items amounting to P15.602 million with a carrying amount of P8.341 million, were considered counted in the RPCPPE even though such items were recorded in the books of accounts without a detailed breakdown

2.11 The Conceptual Framework for Financial Reporting discussed among others, the following enhancing qualitative characteristics of useful information included in the general-purpose financial statements:

Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Xxx

2.12 Review of the submitted RPCPPE by Management disclosed several line items with no detailed particulars and described only as Miscellaneous items with a total amount of P15.602 million and carrying amount of P8.341 million. Details are presented in Table 4.

Table 4 – Accounts with Miscellaneous Line Items Without Detailed Breakdown

Account Number	Account Name	Cost	Accumulated Depreciation	Carrying Amount
10599010	Construction in Progress- Investment Property Buildings	7,709,734	0	7,709,734
10604990	Other Structures	4,518,600	4,518,600	0
19999020	Foreclosed Property/Assets	922,591	922,590	1
10801020	Computer Software	631,170	0	631,170
10698990	Other Property, Plant and Equipment	1,819,748	1,819,748	0
Total		**15,601,843**	**7,260,938**	**8,340,905**

2.13 Inquiry with Accounting personnel revealed that these items have been recorded in NDC’s books of accounts for many years as one-line item under the subcode “Miscellaneous” and currently, there is no detailed breakdown/information constituting these items.

2.14 The presence of these items in the RPCPPE, which were tagged as “counted” without a detailed breakdown, undermines the reliability of the said Report. Additionally, the condition and existence of these items cannot be ascertained due to the absence of information on their whereabouts and the transactions where these items originated.

2.15 Furthermore, the continuous recognition of these items in the books of accounts without a supporting schedule containing their details affects the verifiability of the balance of the account.

2.16 **We recommended and Management agreed to:**

a. Instruct the Disposal Committee to undertake immediate disposal of idle and unserviceable PE items to avoid further deterioration and devaluation of the same;

b. 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 its use or disposal in accordance with Paragraph 67 of PAS 16;

c. Instruct the Administrative Unit to prepare a list of non-existing/missing PE items in the RPCPPE and conduct an investigation to determine accountability over the same;

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

e. Direct the Administrative and Accounting Units to determine the source of the "Miscellaneous" PE items and provide a detailed breakdown for the same.

2.17 The Audit Team will monitor Management's compliance with the recommendations.

3. The faithful representation of the balance of the Rental Receivable account amounting to P57.883 million could not be established due to unreconciled variances in the total amount of P29.384 million between the balance per books and confirmed balances of the accounts with various lessees.

3.1 Paragraph 15 of the Philippine Accounting Standards 1 states 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 set out in the Framework. xxx*

3.2 As of December 31, 2022, the rental receivable and allowance for impairment accounts have a balance of P57.883 million and P30.824 million, respectively. The Audit Team, through NDC's Accounting Department, sent 58 confirmation letters to various lessees of NDC to verify the completeness of the recorded balance of the rental receivable account. Of the 18 lessees that responded, 14 accounts showed unreconciled variances totaling P29.384 million. The summary of the results of confirmation is presented in Table 5.

Table 5 – Variance between Subsidiary Ledger balances and Results of Confirmation of Rental Receivables

Lessee	Balance per Books	Confirmed Amount	Variance
Philippine Pharma Procurement, Inc.	9,203,758	24,830,238	15,626,480
Board of Investment	11,274,548	2,525,098	8,749,450
Department of Trade and Industry	1,513,291	0	1,513,291
Philippine Associated Smelting and Refining Corp	2,561,402	1,457,967	1,103,435
Lepanto Mining Corporation	4,022,352	4,866,849	844,497
Isabel Ancillary Services Co Ltd	0	529,112	529,112
Manila Pest Control	520,000	0	520,000
Spectrum Engineering and Consultancy	124,182	0	124,182
LIDE Management Corporation	7,503,845	7,382,660	121,185
Al Amanah Islamic Bank of the Philippines	120,168	0	120,168
Municipality of Isabel Leyte	26,532	133,447	106,915
Senate of the Philippines	12,839	0	12,839
Philippine International Trading Corporation	0	7,351	7,351
Esguerra, Mappala and Associates, Inc.	5,000	0	5,000
Total			**29,383,905**

3.3 Analysis and review of records of the above lessees in NDC's books of accounts for rental receivables revealed the following observations:

Lessee	Observations
Philippine Pharma Procurement, Inc.	The actual amount confirmed is P489.894 million which includes receivables for rental, utilities, loans and interest. The lessee responded to our request to provide a detailed breakdown of the confirmed amount, of which P24.830 million pertains to rental receivables. Monthly accrual for rental was indefinitely stopped in 2017 since the collectability of the account is remote in accordance with Section 7, of Bangko Sentral ng Pilipinas Circular No. 1011, series of 2018.
Board of Investment	The variance from last year's confirmation amounting to P2.107 pertaining to December 2020 rental remained unreconciled. For CY 2022, the lessee is three months behind in its rental payment.
Department of Trade and Industry	An amount equal to P0.788 million from the total variance was traced back as early as 2007. The other sources of the variance are as follows: P0.619 million represents various accruals in 2016; P152,602 is attributed to a penalty in 2010, while the remaining balance pertains to the accumulated differences of accruals and payments from 2017 to 2019. In 2021, there was a reversal of penalties for late payments in 2018 and 2019 amounting to P134,574. As of December 31, 2022, the outstanding balance of the lessee is equal to the variance amounting to P1.513 million.

Lessee	Observations
Philippine Associated Smelting and Refining Corporation	Part of the variance is the remaining portion of back rentals which was mostly paid in 2019 and accumulated underpayments from 2019 to present. Although, rental payments have been partially made up until September 2022, there are still outstanding balances.
Lepanto Mining Corporation	Beginning in May 2020, the lessee defaulted in its rental payments until the expiration of its contract in April 2022. In our previous confirmation, Management informed that it coordinated with the lessee to reconcile the accounts. However, the variance remained unreconciled and the lessee has still outstanding rental obligations.
Isabel Ancillary Services Co Ltd	Monthly accruals and payments are updated in NDC's books of accounts.
Manila Pest Control and Spectrum Engineering and Consultancy	The variances pertain to the long outstanding balance of the lessees for more than a decade. Collection letters were sent in 2021, however, no settlement was made.
LIDE Management Corporation	The negative balance that initially appeared in the subsidiary ledger in 2018 was adjusted in December 2020. Despite the rental payments being up to date, there is still an outstanding balance of P7.504 million.
Al Amanah Islamic Bank of the Philippines	The variance pertains to the long outstanding balance in NDC's books of accounts for more than nine years.
Municipality of Isabel Leyte	It was noted that since 2015, most monthly payments did not match the monthly accrual of rentals. Although an adjustment was made in August 2022, there is still an unreconciled variance of P106,915.
Senate of the Philippines	The variance pertains to the long outstanding balance of the lessee for more than a decade. In 2021, NDC started processing its request for authority to write off the account and still completing/gathering all necessary supporting documents.
Philippine International Trading Corporation	For 2022, there were no outstanding rental receivables from the lessee in NDC's books of accounts since its payments are updated.
Esguerra, Mappala and Associates, Inc.	The variance pertains to the unpaid rental for December 2022.

3.4 The presence of unreconciled variances in the rental receivables account creates uncertainty on the completeness and reliability of the recorded balance in NDC's books of accounts. This casts doubt on whether all the transactions/events affecting the said account were fully accounted for.

3.5 **We recommended that Management:**

a. **Review the recording of monthly accrual based on the noted variances, reconcile with the corresponding lessees and prepare adjusting entries, if warranted;**

b. **Demand payment from lessees with overdue accounts and consider applying penalties and/or interests in accordance with the terms and conditions of their lease contracts; and**

c. **Coordinate with the representatives of Manila Pest Control, Al Amanah Islamic Bank of the Philippines, Senate of the Philippines and Spectrum Engineering and Consultancy to finally reconcile and settle their long outstanding accounts.**

3.6 Management commented that the Accounting Unit periodically monitors the rental receivable account and reconciles any discrepancies in the accounts.

3.7 Additionally, Management submitted a schedule regarding the variances noted from the confirmations and reconciled it with the corresponding lessees' accounts.

3.8 Further, Management commented that monthly billing statements were sent to each lessee and the applicable penalties and interest were also applied to their outstanding balances in accordance with the terms of their contracts.

3.9 Management informed that the receivable account of Manila Pest Control was referred to the Legal Department for issuance of a demand letter. The receivable account of Al Amanah Islamic Bank of the Philippines will be collected in coordination with the Treasury Unit. The receivable account of the Senate of the Philippines has been requested for a write-off. Lastly, the receivable account of Spectrum Engineering and Consultancy will be reversed upon submission of supporting documents.

3.10 The Audit Team will monitor Management's actions on the issues at hand.

4. The balance of the Accounts Payable account amounting to P19.195 million cannot be relied upon due to: a) inclusion of long outstanding payables totaling P3.180 million; and b) existence of negative/abnormal balance of P231,230 due to erroneous recording and offsetting of payables.

4.1 Paragraph 4.46 of Conceptual Framework for Financial Reporting discussed the recognition of liabilities in the financial statements which states that:

A liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

4.2 Also, Paragraph 11 of Philippine Accounting Standards (PAS) 37 defines trade payables and accruals as follows:

(a) Trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and

(b) Accruals are liabilities to pay goods or services that have been received or supplied but not have been paid, invoiced, or formally agreed with the supplier, including amounts due to employees. Xxx

a. Inclusion of long outstanding payables totaling P3.180 million

4.3 The balance of Accounts payable as of December 31, 2022, includes payables amounting to P3.180 million which remained outstanding and non-moving in the books of accounts for more than two to six years already.

4.4 Analysis of the outstanding payables disclosed that these pertain to accruals of goods and services procured by NDC from various suppliers/contractors. These payables were not paid the following year after accrual, while others were paid, but the amount accrued for the particular year exceeded the payments made.

4.5 While these payables represent valid claims at the time they were recorded, the lapse of time that they have been long outstanding in the books of accounts casts doubt on their validity and existence.

b. Existence of negative/abnormal balance of P231,230 due to erroneous recording and offsetting of payables

4.6 Audit of Accounts payable account as of December 31, 2022 disclosed the presence of a negative/abnormal balance amounting to P231,230 pertaining to the account of LIDE Management Corporation (LMC). The abnormal balance is caused by offsetting the accrued maintenance expenses for the leased property which were advanced by LMC against its rental payments. It was found that the amount accrued was less than the amount collected, thus, resulting in a negative/abnormal balance.

4.7 The presence of an account with an abnormal balance may indicate that there is overpayment as compared to the amount accrued/billed or errors committed in the recording of transactions and the possible absence of monitoring the transactions affecting the account.

4.8 **We recommended that Management:**

a. Evaluate and analyze all recorded payables which remained outstanding for two to six years and ascertain if these have present or active claims from creditors and thus, are still valid for payment, otherwise, prepare reclassification/adjusting entries to close the accounts to Retained Earnings;

b. Conduct a thorough review of LMC's account which has a negative/abnormal balance and prepare necessary adjustments to correct the same; and

c. Henceforth, conduct periodic monitoring of payable accounts to ensure the reliability of the balance for fair presentation in the financial statements.

4.9 Management commented that the long outstanding payables amounting to P3.180 million are for verification and reconciliation of accounts.

4.10 Further, Management commented that the Accounting Unit will reconcile the account of LMC to identify the variance and prepare the corresponding adjusting entry to correct the balance of the account.

4.11 Management informed that periodic monitoring of payable accounts will be conducted.

4.12 The Audit Team will monitor Management's compliance with the recommendations.

5. The reliability of the payable account to the Commission on Audit (COA) amounting to P7.214 million could not be ascertained due to the variance of P13.002 million between the records of NDC and that of COA.

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

5.2 Paragraph 15 of the Philippine Accounting Standards 1 states:

> *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 set out in the Framework. xxx*

5.3 On May 2, 2023, the Office-in-Charge of the Finance Office, Planning, Finance and Management Sector (PFMS) of COA sent a letter to the OIC-Supervising Auditor of COA-NDC, requesting assistance for the remittance of the unreconciled balance of the cost of audit services between COA and NDC records amounting to P13.002 as of December 31, 2022.

5.4 Based on the summary of assessments, remittances and balances from the COA Finance Office, NDC has an unremitted cost of audit amounting to P20.216 million as of December 31, 2022. However, in the books of accounts of NDC, its payable to COA was only P7.214 million. Hence, a variance of P13.002 million between the records of NDC and COA.

5.5 Verification of records showed the breakdown of the variance as follows:

a. The amount of P0.568 million represents the difference between the cost of audit services for CY 2022 amounting to P7.782 million and the balance per NDC's books of accounts as of December 31, 2022, amounted to P7.214 million. The cost of audit services for CY 2022 was paid by NDC on March 13, 2023, amounting to P7.782 million.

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

c. The remaining variance of P11.869 million is attributed to the balances from CYs 1990 to 2018 cost of audit services. The main reason for this discrepancy was the failure of reconciliation and adjustment between the amount assessed/billed by COA to NDC for auditing services and the actual cost of audit services being paid by NDC during the above-mentioned years. We noted that the assessment billed by COA was based on the budget estimates prepared by the Audit Team assigned in NDC, while NDC paid cost of audit services based on the actual cost incurred for a specific year. Since the difference was not reconciled or adjusted, this resulted in the accumulation of variances amounting to P11.869 million from CYs 1990 to 2018.

5.6 In CY 2019 audit, we communicated the issue of the unremitted cost of audit services through an Audit Observation Memorandum. We 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 on the proof of remittance, if there is any. However, after the lapse of three years, NDC did not reconcile the variance with COA-PFMS and remit the balance, if any.

5.7 Inquiry with the Accountant disclosed that the Accounting Unit is still in the process of gathering and reconciling the records pertaining to the unremitted cost of audit services and thereafter, it will submit a request for reconciliation and adjustment with Finance Office, COA-PFMS.

5.8 The presence of unreconciled variances casts doubts on the reliability of the account balance as of the reporting period.

5.9 **We reiterated our prior years' recommendations that Management:**

a. Require the Accounting Unit to expedite the gathering of records to reconcile with the Finance Office, COA-PFMS, for the difference between the assessment billed and the actual cost of audit services incurred and prepare adjusting entries, if warranted; and

b. Remit the balance of the cost of audit services due to COA, through the BTr, 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.

5.10 **Further, we recommend that Management, henceforth, conduct periodic monitoring and reconciliation of records between NDC and COA on the cost of audit services.**

5.11 Management informed that the Accounting Unit was able to retrieve the supporting documents for COA Audit fees for CYs 2000 to 2018 and will continue to exert effort to locate the pertinent documents for CYs 1990 to 1998. Once completed, NDC will coordinate with COA-PFMS to reconcile the variance.

5.12 The Audit Team will monitor Management's actions on the issue at hand.

6. The balance of the Prepayments account amounting to P23.929 million could not be relied upon due to non-provision of allowance for impairment for dormant and/or unrecouped advances to contractors for completed and terminated projects amounting to P1.256 million.

6.1 Paragraph 9 of PAS 36 – Impairment of Assets, provides that:

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

6.2 Examination of the Prepayments account which includes Advances to Contractors amounting to P1.256 million as of December 31, 2022, disclosed that this account wholly pertains to dormant and/or unrecouped advances for completed and terminated projects. The realizability of these advances is remote or nil. Details are presented in Table 6.

Table 6 – Summary of dormant and/or unrecouped advances to contractors

Contractor	Particulars	Amount	Remarks
Thaumaturgy Trade Phils.	Supply, application and installation of waterproofing on a slab at the roof deck and replacement of roofing at Penthouse level of the Industry & Investment Building	642,600	Project was completed in February 2019. Per Accounting records, no progress billing has been made on the project.
RM Mangubat Construction and Realty Development Corporation	Supply of labor, equipment and materials for the improvement of the façade, interior renovation and general repair of selected areas of NDC	613,763	The contract was terminated in August 2021.
Total		**1,256,363**	

6.3 Considering that the recoverability of the foregoing advances is remote or nil and the purposes of which no longer exist, there is a strong indication that the account is fully impaired, thus, provision of allowance for impairment is warranted.

6.4 The non-provision of allowance for impairment for these advances casts doubt on the reliability of the balance of the Prepayments account as of the reporting period.

6.5 **We recommended that Management:**

a. Require the Accounting Unit to assess the recoverability of the advances to contractors amounting to P1.256 million and provide an allowance for impairment, if warranted; and

b. Henceforth, conduct periodic monitoring on the validity and existence of the advances to contractors and ensure that these have been properly applied in the progress billings.

6.6 Management commented that the statute of limitations for the filing of cases by or against NDC has not yet prescribed for the accounts of the two contractors. Accordingly, NDC maintained the recording of the same in the books of accounts.

6.7 While it is true that the statute of limitations for the filing of cases by or against NDC has not yet prescribed for the advances made to the two contractors, the provision of allowance for impairment of the two accounts does not preclude NDC from initiating legal actions, such as filing of cases. We would like to emphasize that provision of allowance for impairment is not tantamount to write-off of accounts, since the former is an accounting estimate necessary to achieve fair presentation of the accounts in the financial statements. Hence, the advances are still recorded in the books of accounts but stated in their net realizable amounts.

B. OTHER OBSERVATIONS

7. Receivables amounting to P1.240 billion which was already provided with 100 per cent allowance for impairment, remained dormant and have been outstanding in the books of accounts for more than ten years which is not compliant with COA Circular No. 2016-005 dated December 19, 2016.

7.1 This is a reiteration of the prior years' audit observation with updated information.

7.2 Section 6.1 of COA Circular No. 2016-005 dated December 19, 2016, states that:

All government entities shall conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable xxx.

7.3 Moreover, the same Circular provides procedures and guidelines for the write-off of dormant accounts. The pertinent provisions are as follows:

7.4. Prepare aging of dormant receivables, unliquidated cash advances and fund transfers on a quarterly basis to support the request for write-off, and indicate in the remarks column the existence of the applicable conditions, as follows:

a. Absence of records or documents to validate/support the claim and/or unreconciled reciprocal accounts
xxx
d. Incapacity to pay or insolvency
e. Exhaustion of all possible remedies by the Management to collect the receivables xxx
f. No pending case in court involving the subject dormant accounts.

8.3 The request shall be supported by the following documents:

a. Schedule of dormant accounts by accountable officer/debtor/government entity and by account, certified by the accountant and approved by the Head of the government entity;

b. Certified relevant documents validating the existence of the conditions, as applicable, such as:

b.1 xxx
b.2 Proof of Insolvency
b.3 xxx
b.4 Certification from the Securities and Exchange Commission that the Corporation is no longer active
b.5 xxx
b.6 Proof of exhaustion of all remedies to collect the receivables and demand to liquidate the cash advances and fund transfers, such as but not limited to copies of served or returned demand letters
b.7 Certification by Legal Officer of the entity of no pending case relative to the account
b.8 Certification by the responsible officials of the entity to the effect that there are no records/documents available to validate claim
b.9 Other justifications, like in the case of request for write-off due to loss of documents, the circumstances of the loss should be stated in the letter-request
b.10 xxx

7.4 Dormant receivables as defined under the same Circular are accounts with balances that remained inactive or non-moving in the books of accounts for ten years or more and where settlement/collectability could no longer be ascertained.

7.5 In addition, the subject Circular provides for the delegation of lower adjudicating bodies of the Commission regarding the approval of requests for write-off of dormant receivable accounts, unliquidated cash advances and fund transfers of National Government Agencies, Local Government Agencies and Government-Owned and Controlled Corporations.

7.6 Audit of the various receivable accounts disclosed that the following receivables with an aggregate outstanding balance of P1.240 billion have remained dormant/non-moving for more than ten years as of December 31, 2022. Details are presented in Table 7.

Table 7 – Schedule of Dormant Receivables

Receivable Account	Amount
Due from subsidiaries/associates/affiliates	536,101,475
Due from National Government (NG)	3,252,877
Loans and interest receivables (subsidiaries/associates/affiliates)	700,858,956
	1,240,213,308

7.7 Of the amount stated above, we have noted that P1.237 billion represents advances and loans granted to subsidiaries/associates/affiliates of NDC which are already dissolved or inactive. Meanwhile, the amount due from NG pertains to expenses incurred in the transfer of various accounts to NG. Thus, the possibility of collection is remote.

7.8 These receivable accounts were already provided 100 per cent allowance for impairment.

7.9 This observation was already raised in prior years' audit on NDC, however, the recommendation to request authority from COA to write off the foregoing dormant receivables has not been fully complied with. We acknowledged that Management had requested authority from COA to write off various dormant receivable accounts in December 2016, January 2020 and December 2021, but all requests were returned due to lack of required supporting documents pursuant to Sections 7.4 and 8.3 of COA Circular No. 2016-005. Management then informed that it is continuously gathering and locating documents to support the request for authority to write off, but to date, no request has been refiled.

7.10 On the other hand, we are also of the view that Management should exhaust all possible means to recover, if feasible, these long overdue accounts.

7.11 **We reiterated our prior years' recommendation that Management require the Accounting Unit in collaboration with the Legal Department, to refile the request for authority to write off of dormant accounts with the COA, duly supported with required documents, pursuant to COA Circular No. 2016-005 dated December 16, 2016, on the proper disposition/closure of dormant accounts.**

7.12 Management commented that all the initially required supporting documents were submitted to COA. However, COA returned the request for write-off and requested submission of the history of each dormant account. Despite the Accounting and Treasury Units' extensive efforts to locate the necessary documents, no records related to the accounts were found. Thus, a formal endorsement will be made to COA, requesting acceptance of the request for write-off without the history of accounts. Accordingly, NDC will issue a certification stating that no historical records are available for each dormant account.

7.13 The Audit Team will monitor the re-filing of the request for write-off of dormant accounts.

8. The compensation price on the negotiated sale of 13,297.97 square meters (sq. m.) of Pandacan property, subject to the Right-of-Way (ROW) of the Metro Manila Skyway Stage 3 (MMSS3) Project amounting to P757.984 million was not yet finalized despite the lapse of more than four years since the undertaking of the Road ROW acquisition in February 2018 by the Department of Public Works and Highways (DPWH) and remained outstanding after completion of the project in January 2021, resulting in foregone revenue or lost income opportunities for the Corporation.

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

8.2 Section 5 of Republic Act (RA) No. 10752 or *An Act Facilitating the Acquisition of ROW, Site or Location for National Government Infrastructure Projects,* provides that:

> *Rules on Negotiated Sale – The implementing agency may offer to acquire, through negotiated sale, the right-of-way, site or location for a national government infrastructure project, under the following rules:*
>
> *(a) The implementing agency shall offer to the property owner, as compensation price, the sum of:*

(1) The current market value of the land;
(2) The replacement cost of structures and improvements therein; and
(3) The current market value of crops and trees therein,

Xxx

8.3 Moreover, Section 6.11 of the Implementing Rules and Regulations (IRR) of RA No. 10752, states that:

Outstanding Claims for ROW Payments

In accordance with Section 5 of the Act, the provisions of Section 6.1 of this IRR shall also apply to outstanding claims for right-of-way payments, ***except that the amount to be offered shall be the price at the time of taking of property, including legal interest until fully paid,*** *subject to the transitory provision in Section 19 of this IRR. (Emphasis supplied)*

8.4 The property located at Tomas Claudio St., Pandacan, Manila has an area of 50,137.95 sq. m. with a fair market value of P2.256 billion as of December 31, 2022. A portion of the property measuring 13,297.97 sq. m. was affected by the ROW of the MMSS3 Project.

8.5 On February 12, 2018, NDC Management recommended to the Board of Directors (BOD) the approval of the negotiated sale with DPWH for its acquisition of the initial 11,109.49 sq. m. portion of the Pandacan property as ROW for the MMSS3 Project at P50,500 per sq. m. based on the 2017 appraisal of the entire property. During the BOD meeting, it was discussed that the position of the Department of Finance (DOF) Secretary was for the entire property to be sold instead of only the portion needed for the ROW since the value of the remaining parcel of land will be greatly diminished as the property will no longer be viable for commercial purposes. Thereafter, the BOD instructed the Management to offer the sale of the entire property.

8.6 Pending the acquisition of the property by DPWH, NDC issued a Permit to Construct on June 13, 2018, considering the project's implementation timeline and it being a government project.

8.7 On June 14, 2018, the Toll Regulatory Board (TRB), the implementing agency of the project, gave its indicative offer to buy the initial 11,109.49 sq. m. at P30,000 per sq. m. or a total consideration of P333.285 million based on the appraisal by the Land Bank of the Philippines (LBP). NDC sent its counteroffer to sell the entire property and not only the specified area affected by ROW.

8.8 The BOD reiterated its directive to sell the entire property during its meeting on October 28, 2020 and based the selling price on the property's latest zonal value at P53,000 per sq. m. In a letter dated November 11, 2020, NDC sent its updated offer to TRB with terms to sell the entire property in the amount of P2.657 billion or P53,000 per sq.m.

8.9 Subsequently, a follow-up letter dated January 14, 2021, was sent to TRB, demanding payment for the compensation of the property subjected to ROW acquisition.

8.10 In a letter dated July 26, 2021, TRB submitted the matter/issue on the acquisition of the remaining areas not covered by ROW to the Department of Justice (DOJ) for adjudication. However, based on our inquiry with NDC personnel, DOJ did not process the said referral by TRB and renegotiation with them is currently ongoing.

8.11 In the November 22, 2021 meeting with TRB and DPWH, NDC was apprised of the following: a) that the market value of the subject property is P57,000 per sq.m. as appraised by LBP; b) TRB and DPWH intend to acquire only the portion of the property affected by the ROW of the Project; c) the acquisition of the remaining areas not covered by the ROW shall be subject to adjudication and appropriate action by the DOJ; and d) TRB will officially send a letter-offer to NDC to purchase the portion of the property directly affected by the ROW based on the market value stated above.

8.12 On March 8, 2022, TRB sent a formal letter-offer to NDC for the acquisition of the confirmed area of 13,297.97 sq.m. portion of the latter's property in Pandacan, Manila affected by the said ROW of the MMSS3 Project for P57,000 per sq. m. based on the appraised value of LBP. The letter included a provision/condition stating that in case the Government's offer is rejected or no reply is received within 30 days from the receipt of the letter, the Government shall exercise the power of eminent domain through the filing of a complaint with the regular court for the expropriation of the subject property.

8.13 In its meeting on March 18, 2022, the NDC BOD decided to defer action on TRB's offer and retain its standing directive to sell the entire property to the Government. Instead, Management was directed to arrange a meeting among the principals, i.e., Secretaries of the Department of Trade and Industry, DPWH, DOF and DOJ, to discuss and address the unresolved issues regarding the Government's acquisition of the property.

8.14 During the meeting of the principals and their representatives on March 29, 2022, the following matters were discussed:

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

b. TRB will no longer pursue the deadlines relative to its March 8, 2022 offer to NDC;

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

d. TRB committed to providing pertinent documents to DOF and NDC.

8.15 Subsequently, TRB requested NDC to issue a Permit to Enter (PTE) to continue the works for the MMSS3 connection to the North Luzon Expressway (NLEX)-South Luzon Expressway (SLEX) Connector Road Project. In response, NDC requested TRB to provide updates on the status of its evaluation of the acquisition of the Pandacan property and the timeline for the payment of the compensation for the same. Accordingly, no response was received from TRB regarding the matter.

8.16 On October 18, 2022, during the meeting between the representatives of NDC and TRB, the latter informed that an additional toll rate of seven pesos will be charged by the Concessionaire if they will be required to pay the full purchase price of the entire property. NDC pointed out that under DPWH Department Order No. 327, series of 2003, affected owners who will lose more than 20 per cent of their assets or whose remaining land is no longer viable for continued use or occupancy because of the ROW for infrastructure projects of the government, shall be entitled to the full payment of the fair market value of the entire property. TRB countered that the aforesaid guidelines do not apply to big properties. In the same meeting, TRB reiterated its request for a PTE.

8.17 TRB, in its letter dated November 7, 2022, requested the issuance of a PTE to complete the columns installed for the MMSS3 alignment with the NLEX-SLEX Connector Road Project. TRB also mentioned that the unfinished columns exposed to rainwater are subject to corrosion which may affect its structural soundness.

8.18 Finally, after deliberating on the foregoing issues during the NDC BOD meeting on December 9, 2022, the BOD agreed to the issuance of PTE, subject to the execution of a Memorandum of Agreement (MOA) among NDC, DPWH and TRB, which shall include, among others:

a. Payment to NDC of the 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.

8.19 Relative thereto, the NDC General Manager apprised TRB regarding the latest NDC BOD directives on the subject property in a letter dated February 2, 2023. The following provisions were proposed to be included in the MOA:

a. TRB shall immediately pay NDC the amount of P757.984 million as just compensation for the areas directly affected by ROW, i.e., 13,297.97 sq. m.;

b. NDC's acceptance of the above-mentioned payment shall not prejudice its claim for the government to acquire the entire property and to be paid the just compensation for the remaining areas, i.e., 36,839.98 sq. m.;

c. DPWH, as the agency primarily responsible for undertaking the ROW acquisition, has no objection to the acquisition of the entire property, per its letter dated April 5, 2022;

d. TRB and DPWH shall endeavor to facilitate the payment of just compensation for the remaining portion of the property within a reasonable but certain time period to be agreed upon by the parties; and

e. In the event TRB and DPWH fail to fulfill the terms and conditions of the MOA within the period, the parties shall immediately refer the matter to DOJ, which has the jurisdiction to settle or adjudicate the matter.

8.20 Accordingly, the TRB has transmitted to the DPWH per a letter dated April 24, 2023, the draft MOA for the latter’s comment and appropriate action.

8.21 We acknowledged Management’s efforts in pursuing its firm position regarding the issue on the ROW acquisition for MMSS3 involving the Pandacan property. However, based on the foregoing negotiations with TRB and DPWH, Management has not negotiated or demanded the inclusion of legal interest in the computation of the compensation price for the property covered in the ROW acquisition for MMSS3, pursuant to Section 5 of RA No. 10752 as implemented by Section 6.11 of its IRR. The exclusion of legal interest in the negotiation may be considered disadvantageous to the interest of NDC.

8.22 Meanwhile, the two contractors of the MMSS3 project which leased portion of the subject property from November 2018 to December 2020, apparently continued using the leased property even after the end of their lease contracts as evidenced by the presence of heavy equipment, circular formwork and other construction materials on some portions of the property during the ocular inspection of the Audit Team on December 1, 2021.

8.23 Management informed that they called the attention of TRB on the presence of some of the concessionaire's contractors occupying the subject property without any legal basis and directed them to vacate the area immediately. However, no compensation/lease payments for the use of the property were received from the contractors.

8.24 The ROW traversed the property dividing it into three parcels greatly affected the two lessees of the property. One of the lessees, who occupied 5,000 sq. m., had a lease contract that expired in November 2019 and was only extended for three months without applying for a renewal of the lease contract. On the other hand, the other lessee occupied the larger portion of the property, with an area of 45,137 sq. m., pre-terminated their ten-year lease contract in 2018, which was originally scheduled to end in March 2026 due to the adverse impact of the ROW on the leased property.

8.25 Considering the lapse of more than four years since negotiation in 2018 and the fact that the project was already completed and operational since July 2021, the concessionaire is benefitting from the completed project while the compensation of ROW traversing NDC's property was still not paid/settled.

8.26 Additionally, NDC has suffered loss of income arising from the lease of the subject property and further delay in the payment of compensation price and resolution or settlement of the ROW acquisition would result in increased losses or foregone revenue for NDC.

8.27 **We reiterated our prior year's recommendations with modification that Management:**

a. Continuously coordinate with TRB and DPWH to expedite the execution of the MOA for the immediate resolution of the issue on the ROW acquisition of the Pandacan property and the corresponding compensation thereof;

b. Consider the inclusion of legal interest in the computation of the compensation price for the property covered in ROW acquisition for MMSS3 Project and negotiate the same with TRB and DPWH, pursuant to Section 5 of RA No. 10752 as implemented by Section 6.11 of its IRR; and

c. Demand compensation from the contractors of the Project for the unauthorized use of the property in the absence of a lease agreement.

8.28 Management commented that they remain in constant communication and discussion with the TRB and DPWH, the agencies responsible for the ROW acquisition of the subject property. The objectives are to expedite the resolution of issues related to the acquisition of the whole property, facilitate the execution of the MOA and ensure prompt payment of just compensation for the affected MMSS3 Project ROW on NDC property.

8.29 Further, Management commented that during the most recent meeting among NDC, TRB and DPWH representatives on June 8, 2023, TRB informed NDC that DPWH takes the position that they do not need to be a party to the MOA.

8.30 In a letter dated June 5, 2023, DPWH confirmed this position, citing two reasons: 1) TRB is the lead implementing agency of the project; and 2) TRB is one of the main parties involved in the related documents for the conveyance of properties affected by the MMSS3 project.

8.31 Based on these developments, TRB assured NDC that it will expedite the submission of the revised/final draft MOA. Once NDC receives the final draft, it will be forwarded to the Office of the Government Corporate Counsel for review.

8.32 Additionally, Management commented that it will continue its proactive approach and make every effort to conclude the payment for the affected project ROW as soon as possible.

8.33 Management also informed that in several meetings with TRB, NDC has raised the issue of the possible inclusion of legal interest in the computation of the compensation price for the property, as specified in Section 6.11 of the IRR of RA No. 10752. However, TRB contended that it should not be held liable for interest due to the following reasons: 1) TRB and NDC are both government entities; and 2) the delay in settling the issues is beyond TRB's control and attributed to differing policy directions from the principals of both TRB and NDC.

8.34 Nevertheless, Management commented that they will further study the matter and inform TRB about COA's recommendation.

8.35 On a different matter, Management commented on the alleged unauthorized occupation of the subject property by the concessionaire's contractors. Accordingly, it will review its records for the relevant period and refer the matter to the Legal Department for evaluation and determination of the appropriate legal action to claim compensation.

8.36 Management informed that immediate action was taken to secure the property. An order was issued to the NDC-hired security personnel, instructing them not to allow entry of any project contractors without prior clearance from NDC.

8.37 The Audit Team acknowledged the actions taken by Management and requested the Asset Management Group to provide updates to the Audit Team regarding the ongoing negotiation concerning the acquisition of the subject ROW.

8.38 With regard to the inclusion of legal interest in the computation of the compensation price of the property, we are of the view that NDC should demand payment of the same since this is clearly provided in the law. NDC has a legal basis to claim interest since even to date, it has not yet received compensation for its property and it has long suffered opportunity loss. The delay in settling the issue cannot be attributed to differing policy directions since from the start, NDC has made its clear and firm position to TRB to sell the whole property, which has also a legal basis.

9. 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, was suspended by 132 calendar days (CDs) due to the absence of development permit and business permit of the contractor to do business in Dasmariñas City, thus, resulting in unnecessary delay in the implementation of the project.

9.1 Section 10.1 of Annex E of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184, provides that:

> ***The procuring entity shall have the authority to suspend the work wholly or partly by written order for such period as may be deemed necessary****, due to force majeure or any fortuitous events or for failure on the part of the contractor to correct bad conditions which are unsafe for workers or for the general public, to carry out valid orders given by the procuring entity or to perform any provisions of the contract, or due to adjustment of plans to suit field conditions as found necessary during construction. The contractor shall immediately comply with such order to suspend the work wholly or partly.*

9.2 The contract for the Site Development Works for the NDCIE Project located in Barangay Langkaan II, Dasmariñas City, Cavite, with an approved budget of P190.375 million, was awarded to WERR Corporation International (WERR) thru public bidding in the amount of P171.737 million. The contract period is 540 CDs commencing upon receipt of the Notice to Proceed by the contractor on February 16, 2022 and ending on August 9, 2023.

9.3 The Project covers the 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.

9.4 As of December 31, 2022, NDC paid P26.367 million to the contractor for work accomplishment of 15.353 per cent covering the period February 16, 2022 to May 15, 2022. However, on May 19, 2022, NDC received a stoppage order dated May 16, 2022 from the City Government of Dasmariñas due to the contractor's failure of securing 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.

9.5 Section 3 (j) of Annex A of the RIRR of RA No. 9184, provides that:

Contract Time or Duration – In the preparation of the Bidding Documents, the agency shall make an estimate of the actual number of working days required to complete the project through PERT/CPM analysis of the project activities and corrected for holidays and weekends. xxx

9.6 Moreover, Section 6.4 of Annex E – Instruction to Bidders (ITB), of the contract, states that:

It shall be the sole responsibility of the prospective bidder to determine and to satisfy itself by such means as it considers necessary or desirable as to all matters pertaining to this Project, including: (a) the location and the nature of the contract, project, or work; (b) climatic conditions; (c) transportation facilities; (c)[sic] nature and condition of the terrain, geological conditions at the site communication facilities, ***requirements****, location, and availability of construction aggregates and other materials, labor, water, electric power, and access roads; and* ***(d) [sic] other factors that may affect the cost, duration and execution or implementation of the contract, project, or work.*** *(Emphasis supplied)*

9.7 Review of the contract and bidding documents disclosed that securing a development permit from the concerned Local Government Unit was included in the scope of work under the Other General Requirements in the Bill of Quantities (BOQ), which should be complied with by the contractor.

9.8 Inquiry with the NDC's Account Officer of the project revealed that one of the requirements needed by the contractor in the application for a development permit is an updated site development plan, currently signed by qualified engineers. However, NDC has not provided the plan to the contractor because the consultant who designed the detailed engineering for the project in September 2014 cannot be contacted anymore and NDC does not have any qualified employees or engineers who could revise the site development plan. As a result, instead of prolonging the suspension due to the non-issuance of the development permit, the contractor resolved the problem by having a revised site development plan signed by its own engineers in order to secure the required development permit for the project.

9.9 Further, securing a business permit to conduct business in Dasmariñas City is the sole responsibility of the contractor because such permit is necessary to implement the project, as stated in Section 6.4 of Annex E of the contract. According to the NDC's Account Officer of the project, the Contractor may not be aware that it needs to secure a business permit specifically for the project's location.

9.10 Eventually, the Contractor complied and submitted all the required documents to the City Government of Dasmariñas 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 for WERR to conduct business in Dasmariñas City were granted on January 17 and 24, 2023, respectively. On January 25, 2023, the construction activities at the project site resumed.

9.11 As a result of the delay, the Catch-Up Plan Project Evaluation and Review Technique and Critical Path Method (PERT-CPM) and Revised Work Schedule submitted by the contractor and approved by NDC extended the term of the contract until December 19, 2023 or for a total period of 672 CDs (540 CDs – original term of the contract plus 132 CDs extension). The temporary stoppage initially caused an unnecessary delay of 254 CDs, which was later on reduced to 132 CDs.

9.12 The delay of 132 CDs could have been mitigated had the Technical Working Group (TWG) of the NDC BAC and the Special Projects Group (SPG) included in the Bid Data Sheet of the bidding documents, Section 6.4 of the ITB and clarified with the bidders during the Pre-bid Conference the specific requirement/s contained in the aforementioned section of the ITB, such as securing of business permit in the project's location. The BAC could have emphasized to the bidders that the term of the contract includes processing time in securing the necessary permits. The complexity in securing those permits and other foreseen factors which could affect the project could have been resolved during the procurement process stage. Thus, it appears that procurement planning was not well undertaken and thorough review of the bidding documents was not properly performed.

9.13 Also, the temporary suspension in the development of the project could have been prevented if proper monitoring had been conducted during the project implementation. The subject delay is considered unfavorable and a setback for the public to benefit from the project.

9.14 **We recommended that Management:**

a. **Explain why the requirement of securing a business permit in the project's location is not included in the Bid Data Sheet of the bidding documents, specifically in Section 6.4 of the ITB and clarified such requirement to the bidders;**

b. **Instruct the SPG, in coordination with the project supervisor, to establish proper supervision and monitoring of the project to ensure compliance with the Catch-Up Plan PERT-CPM and Revised Work Schedule as planned; and**

c. **Henceforth, direct the TWG of the NDC BAC and the SPG to exercise due diligence in preparing bidding documents by ensuring that the requirements in securing necessary permits from the Local Government Unit are included, to avoid unnecessary delays in the implementation of future projects.**

9.15 Management commented that the TWG of NDC BAC and SPG were not aware of the additional requirement imposed by the City Government of Dasmariñas for a Contractor to obtain a business permit for the project's location. The bidding process only required the submission of the business permit issued by the Local Government Unit (LGU) where the bidder's main office address is located. Further, even with several coordination meetings among SPG, NDC's consultants and the City Planning and Development Office of Dasmariñas since 2014, NDC was not informed regarding the need for the Contractor to secure a business permit from their Office. Accordingly, the only permits required were locational clearance, development and building permits.

9.16 Likewise, Management commented that NDC will assist in securing permits from the LGU if requested by the Contractor, as provided in Item 11 of Section IV - General Conditions of the Contract.

9.17 Management also commented that Section 6.4 of the ITB is self-explanatory, stating that it is the sole responsibility of the prospective bidder to determine all matters related to the execution and implementation of the project.

9.18 Finally, Management informed that there were circumstances beyond their control that affected the application of permits, such as the unavailability of concerned LGU officials during and after the election campaign period in 2022.

9.19 We understand that the TWG of NDC BAC and SPG were not aware of the additional requirement imposed by the City Government of Dasmariñas for a Contractor to obtain a business permit for the project's location. However, considering the magnitude of the project with a contract amount of P171.737 million, it is crucial to exercise due diligence in securing all necessary permits and actively monitor and address any issues that may arise throughout the project’s implementation. Thus, SPG and NDC’s consultants should have inquired with the City Government of Dasmariñas of any additional requirements from the start, such as business permit for project’s location to be obtained by the Contractor.

9.20 Further, even though Section 6.4 of the ITB states that it is the sole responsibility of the prospective bidder to determine all matters related to the execution and implementation of the project, it is important to note that this provision is intended as a general condition that requires specification. NDC, as the procuring entity, is responsible in overseeing and ensuring the Contractor's compliance with all relevant regulations and specific requirements necessary for the implementation of the project.

10. Five NDC subsidiaries with investment value aggregating to P140.209 million continue to exist despite cessation of corporate life, prolonged inactivity, approval for abolition and going concern issues, which may result in devaluation of NDC’s investments and inefficient use of government funds and resources.

10.1 Section 2 of Presidential Decree (PD) No. 1445 provides that:

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 safeguarded 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.

10.2 Moreover, Articles 16.1, Section D of Governance Commission for GOCCs (GCG) Memorandum Circular No. 2012-06 approved on November 28, 2012, re: Ownership and Operations Manual Governing Government-Owned and Controlled Corporation (GOCC) Sector, provides that:

Art. 16. Particular Obligations of the Governing Board. – Governing Boards shall ensure that they perform their statutorily-defined role as the State's agents in pursuing economic growth and development within the GOCC Sector, by –

***Ensuring that government assets and resources are used efficiently** and that government exposure to all forms of liabilities and subsidies is warranted and incurred through prudent means, (Emphasis supplied)*

10.3 Pursuant to PD No. 1648 dated October 25, 1979, NDC is mandated to pursue commercial, industrial, agricultural, or mining ventures in order to give the necessary impetus to national economic development. NDC, may on its own or in a joint venture with the private sector, undertake vital projects when necessary or when the private sector is not willing or able to undertake such projects due to high risks or lack of funds/resources.

10.4 In pursuance of this mandate, NDC was tasked to organize subsidiary companies to undertake any of the aforementioned activities. Some of the subsidiaries are presented in Table 8.

Table 8 – Schedule of NDC Subsidiaries

Subsidiaries	% of Ownership	Cost	Allowance for Impairment	Carrying Amount
Non-operational				
Manila Gas Corporation*	91.70	74,616,000	0	74,616,000
NDC-Philippine Infrastructure Corp.	100	80,000,000	(30,000,000)	50,000,000
First Cavite Industrial Estate	100	8,845,038	(8,845,038)	0
Sub-Total		**163,461,038**	**(38,845,038)**	**124,616,000**
Operational				
G.Y. Real Estate, Inc.	60	13,084,200	0	13,084,200
Pinagkaisa Realty Corporation	60	2,508,629	0	2,508,629
Sub-Total		**15,592,829**	**0**	**15,592,829**
Total		**179,053,867**	**(38,845,038)**	**140,208,829**

** Manila Gas Corporation has a wholly-owned subsidiary, Inter-Island Gas Service, Inc. (IIGSI)*

10.5 Review of the financial statements of the foregoing subsidiaries for the year ended December 31, 2022 and supporting documents disclosed that these subsidiaries continue to exist despite adverse issues on their existence such as going concern, cessation of corporate life, prolonged inactivity and approval for abolition. The background, status and issues of the aforementioned subsidiaries are presented below:

Subsidiaries	Background, Status and Issues
1. Manila Gas Corporation (MGC)	MGC's commercial operations ceased in 2001 due to continued financial losses. Prior to the expiration of MGC's corporate life, a request for a 10-year extension was submitted to the GCG, but it was denied. As a result, MGC's corporate life officially ended on September 27, 2012. On December 21, 2012, the GCG classified MGC as "dissolved/liquidated/inactive" under Memorandum Order No. 2012-07. From 2006 to 2017, MGC managed to dispose of most of its assets. However, despite these disposals, MGC has not taken decisive action to pursue its final liquidation. MGC cited legal constraints related to the sale of its Paco property and the disposal of IIGSI's property in Mandaue City, Cebu, as reasons for the delay. The sale of the Paco property became entangled in legal disputes that persisted for several years. Ultimately, the Supreme Court (SC) issued a ruling in 2019 that required MGC to complete the disposal and sale of the property in accordance with

Subsidiaries	Background, Status and Issues
	the Court's decision. Prior to the SC's resolution, the Manila Regional Trial Court (RTC) had ordered the sale and transfer of ownership of the property at a purchase price of P63.520 million, which was deposited with the Office of the Clerk of Court - RTC Manila. Management has indicated that they are waiting for the response of the Office of the Government Corporate Counsel (OGCC) regarding MGC's request for assistance and recommended actions regarding the withdrawal of the deposited payment. However, the lack of proactive measures taken by Management following the SC's denial of MGC's Motion for Reconsideration in 2020 has led to the delay in withdrawing the funds held by the Court. Withdrawal of the said money which has been stalled for more than two years meanwhile waiting for OGCC's reply and recommended courses of action is untenable. Regarding the IIGSI property, attempts to dispose it in 2005 and 2006 were unsuccessful. Multiple property appraisals were commissioned between 2013 and 2022 for the planned sale of the property, but no disposal materialized. MGC's funds are further depleted as it continues to finance the operating expenses of IIGSI. In light of the challenges faced in disposing of IIGSI's property and completing its liquidation process, an alternative approach may be considered. One option is to explore the possibility of utilizing dacion en pago or dation in payment, as provided under the Civil Code. Dation in payment is a special mode of payment where a debtor transfers ownership of a property to the creditor to satisfy a debt in money. By employing dacion en pago or dation in payment, IIGSI can transfer ownership of its Mandaue property to MGC as means of settling its outstanding debts. This approach would result in the disposal of IIGSI's sole asset, settlement of liabilities with the parent company, and ultimately concluding the liquidation of IIGSI by distributing any remaining assets to MGC, which wholly owns IIGSI. Furthermore, the continued existence of MGC and its subsidiary, IIGSI, has led to the continuous incurrence of unnecessary expenses and depletion of its funds.
2. NDC-Philippine Infrastructure Corporation (NPIC)	On May 9, 2008, the NPIC Board of Directors (BOD) passed a resolution shortening the corporate life of NPIC until December 31, 2008. However, on August 28, 2008, the BOD decided to suspend the implementation of the resolution, putting the shortening of corporate life on hold until further notice. Eventually, on May 13, 2009, another resolution was made, extending the term of existence of NPIC until July 31, 2009. Subsequently, NPIC obtained the necessary tax clearance from the Bureau of Internal Revenue (BIR) for its dissolution, cessation of registration, and cancellation of its Tax Identification Number. During the years 2010-2016, when the Aquino Administration prioritized Public-Private Partnerships (PPP), the NDC Chairman at that time decided to postpone the dissolution of NPIC and was seen as a potential vehicle for the implementation of the government's PPP program in infrastructure projects. As a result, NPIC was not among the NDC subsidiaries recommended for dissolution in the meeting of NDC officers and GCG Commissioners. During the meeting of the NPIC BOD on September 12, 2018, the BOD approved the use of NPIC as a vehicle corporation to implement the NDC Gamma Irradiation Facility (GIF) Project. The GIF Project is a multi-million commercial project for the decontamination and sterilization of agricultural and non-agricultural products. On December 13, 2018, the DTI endorsed to GCG the re-activation of NPIC. NDC, as the parent company, is in the process of complying with the requirements of the GCG to reactivate NPIC. This would need an amendment of NPIC's Articles

Subsidiaries	Background, Status and Issues
	of Incorporation, the submission of the corporate strategic and business plans for the new NPIC, feasibility studies, proposed organizational charts, and projected financial statements, among others. However, since the term of the Aquino Administration has long ceased, NPIC has not been utilized as a vehicle for PPP or any government infrastructure projects. Furthermore, NDC has taken the lead in undertaking the GIF project, which is still in the pre-implementation stage. Over the past 15 years, NPIC has not undertaken any infrastructure projects or other proposed projects like the GIF project. Instead, it has incurred expenses without significant income-generating activity. NDC must act immediately on whether NPIC should be abolished or retained as a vehicle for the implementation of the GIF project, in case a joint venture with a private entity does not materialize. The prolonged period of inactivity, coupled with the delayed actions by Management, has led to the continuous incurrence of expenses and potential depletion of NPIC's funds.
3. First Cavite Industrial Estate, Inc. (FCIEI)	On June 4, 2015, the FCIEI BOD approved the dissolution of FCIEI, which was subsequently supported by the NDC BOD on September 30, 2015. The deactivation of FCIEI was officially approved on December 21, 2021, through GCG Memorandum Order (MO) No. 2021-14. Subsequently, on June 23, 2022, MO No. 62 was issued by the Office of the President (OP), officially approving the abolition of FCIEI. To facilitate the implementation of the abolition, a Technical Working Group was established, consisting of representatives from NDC, Philippine Economic Zone Authority and GCG. However, NDC has expressed the intention to retain FCIEI as the corporate vehicle for the development and implementation of the NDC Industrial Estate (NDCIE) Project. NDC's decision to retain FCIEI is driven by two main factors. First, NDC will utilize FCIEI as the company vehicle for the NDCIE Project, which is already in progress. Second, NDC requires access to the common areas owned by FCIEI for the right of way leading to the NDCIE Project. Retaining FCIEI allows NDC to avoid approximately P100 million in taxes that would be incurred if the transfer of FCIEI's common areas to NDC were to take place. Consequently, during the NDC BOD Meeting on December 9, 2022, Resolution No. 22-12-08 was passed, which states that: *Resolved, that Management be, as it is hereby authorized to undertake the necessary actions to effect the revocation of the Order of Abolition by the OP such as, but not limited to the sending of a request or memorandum to OP.* Considering FCIEI's current financial condition, which has been capital deficient from 2015 to 2022, reactivating FCIEI may not be a viable option. Additionally, FCIEI does not have its own employees to implement the NDCIE project.
4. G.Y. Real Estate, Inc. (GYREI)	Goodyear Philippines, Inc. (GPI), the owner of 40 per cent share of GYREI, ceased manufacturing operations in the country in October 2009 and expressed a desire to divest its share in GYREI. The intention to sell GPI's shares prevents GYREI from entering into long-term lease contracts or entertaining new lessees for its property in Las Piñas City to generate additional income.

Subsidiaries	Background, Status and Issues
	The NDC BOD approved and authorized NDC to buy the GPI shares. NDC exercised the option on May 31, 2011, but requested extensions which were ultimately denied by GPI in a letter dated November 14, 2012. On June 1, 2018, GPI formally informed NDC of its intention to sell its entire shareholdings in GYREI. NDC was nominated by GYREI on August 14, 2019, to exercise the right of first refusal for the purchase of GPI shares. The NDC BOD approved the exercise of first refusal, but due to the COVID-19 pandemic, NDC decided not to pursue the purchase. GPI is now exploring other interested buyers for its 40 per cent shares in GYREI. The absence of income-generating activity from the property places GYREI at high risk because it has no sufficient source of funds to sustain its increasing maintenance cost. Consequently, on April 7, 2022, GYREI entered into a tripartite loan agreement with NDC and GPI, amounting to P22.500 million, to finance its operating expenses. The term of the loan is two years commencing after the last drawdown of the loan in June 2022 with an interest rate of 2.37 per cent per annum. The principal amount and interest shall be consolidated and paid on a balloon payment basis. The GYREI's continuous losses for 12 years, liquidity issues and lack of revenue-generating activities raise concerns about its ability to continue as a going concern. NDC needs to promptly decide whether to pursue the purchase of GPI's 40 per cent share or explore other options for GYREI, considering that continuing operations would lead to recurring losses and increased borrowing from shareholders to cover operating expenses.
5. Pinagkaisa Realty Corporation (PRC)	PRC owns a single investment property in Makati City with an area of 17,320 square meters. It was leased to GE Lighting Philippines, Inc. (GELP), which owns 40% of PRC, for 25 years until September 30, 2002. The lease contract was then renewed for an additional 18 years and three months, ending on December 31, 2020. Under the lease agreement, GELP is responsible for decommissioning and remediating the property before returning it to PRC, while also continuing to pay rent during the remediation period. However, due to delays brought by the COVID-19 pandemic, the environmental site assessment remained incomplete. To address this, the PRC BOD extended the lease of GELP until March 31, 2022. On May 31, 2022, the PRC BOD approved GELP's request for a lease extension until December 31, 2022, at the current rate of P0.517 million per quarter. This extension aims to complete the property's decommissioning and remediation project. PRC is awaiting further guidance from NDC regarding long-term plans, such as a potential buy-out of GELP's shares and future income-generating strategies. Given the imminent loss of PRC's sole source of income and Management's failure to secure alternative sources, concerns arise on PRC's ability to continue as a going concern. NDC must take decisive action to sustain PRC's operations before GELP surrenders the leased property.

10.6 Considering the circumstances and status of the foregoing subsidiaries, NDC, being the sole and/or majority owner, has the responsibility of safeguarding and protecting its investments. It is of utmost importance to expedite the liquidation of the non-operational subsidiaries which have been continuously incurring expenses that may lead to depletion of corporate funds.

10.7 The liquidation of these non-operational subsidiaries will mitigate ongoing expenses, streamline operations and enable NDC to allocate resources more efficiently towards strategic objectives. This course of action is vital for safeguarding NDC's investments and optimizing financial resources.

10.8 With regard to the two operational subsidiaries with going concern issues, NDC, as the majority owner, must undertake decisive action. Potential options include acquiring the shares of the private shareholders, considering dissolution, or exploring other alternative plans. Delaying these decisions may result in the depletion of the subsidiaries' funds and foregone income due to idleness or underutilization of investment properties.

10.9 The absence of immediate and decisive actions in addressing the mentioned issues and concerns surrounding the existence of the five NDC subsidiaries may result in inefficient use of government funds and resources and eventually, decrease the value of NDC's investments in these subsidiaries. This does not support the policy of the government outlined in Section 2 of PD No. 1445 which states, that all resources of the government should be managed and utilized in accordance with law and safeguarded against loss or wastage through improper disposition, with a view of ensuring efficiency, economy and effectiveness of government operations.

10.10 **We recommended that after due consultation and representation with the NDC Board of Directors, Management:**

a. **Communicate with the MGC Board of Trustees to take immediate action in pursuing the final liquidation of MGC and coordinate closely with OGCC for the immediate withdrawal of the money deposited with the Court to avoid further losses and depletion of corporate funds;**

b. **Make representation to the IIGSI Board of Trustees to prioritize the disposal of the remaining property of IIGSI, and if the sale does not materialize, explore the possibility of utilizing "dacion en pago" or "dation in payment" as means to settle IIGSI's outstanding debts to MGC and finally conclude the liquidation process;**

c. **Assess the viability of retaining NPIC as a vehicle for the implementation of the GIF project, considering the prolonged period of inactivity;**

d. **Submit status/update on the request for revocation of the MO on the abolition of FCIEI and assess the viability of utilizing FCIEI as a vehicle for implementing the NDCIE project;**

e. **Assess the feasibility of pursuing the purchase of GPI's 40 per cent share in GYREI. If the purchase is deemed not feasible or not in the best interest of NDC, consider the available options for GYREI, such as continuing operations or applying for deactivation and eventual abolition; and**

f. **Provide clear guidance and long-term plans for PRC regarding its future direction by communicating the decision on the potential buy-out of GELP's shares by NDC and outlining a comprehensive strategy for sustainable**

operation and profitability considering the imminent loss of its sole source of income.

10.11 During the exit conference, Management commented that the hindrance to the liquidation of MGC is the withdrawal of the money deposited with the Court for the Pandacan property. Management informed that, as a rule, the other party (Spouses Cua) shall be informed upon filing by MGC of the motion to withdraw the amount deposited with the Court. This allows the other party to file a motion with the Court, seeking to charge MGC for expenses such as the cost of evicting informal settlers, attorney's fees and applicable taxes.

10.12 Regarding the IIGSI subsidiary, Management commented that it is exploring alternatives for the disposal of IIGSI's property located in Mandaue City, Cebu and taking into consideration COA's recommendation of dation in payment of the same to MGC. Moreover, Management will look into the possibility of donating the property to the LGU of Mandaue City, Cebu.

10.13 Management commented that the revocation of the MO on the abolition of FCIEI cannot be reversed, as it was issued by a former President of the Philippines. Thus, the process of abolishing FCIEI will continue. However, the payment of taxes for the transfer of common areas is currently under study, considering the significance of the amount involved and the absence of available funds of FCIEI to pay for the transfer taxes.

10.14 Management informed that the plan for NPIC is for it to become a holding company for all infrastructure projects of NDC.

10.15 Further, Management commented that the 40 per cent ownership of GYREI and PRC will be bought out from its private partners because the properties owned by the two subsidiaries are of significant value and importance.

10.16 The Audit Team will monitor Management's actions on the issue at hand.

11. The value of NDC's investment amounting to P45 million in the Rizal Hydropower Project located in Rizal, Nueva Ecija has significantly decreased due to share in losses amounting to P8.974 million since the Project's commercial operation in July 2016, hence, return of investment may not be realized within the targeted payback period of eight years.

11.1 On July 1, 2014, NDC and Philippine National Oil Company Renewables Corporation (PNOC RC) entered into a Memorandum of Agreement (MOA) to establish and enter into a partnership for the development, commercialization, operation and maintenance of the Rizal Hydropower Project for energy commercialization.

11.2 The Rizal Hydropower Project is located at the Pampanga River Irrigation System Main Canal (PRISMC) which is downstream of the Rizal Diversion Dam in Rizal, Nueva Ecija. It has a design discharge capacity of 30 cubic meter per second with an irrigation service area of 12,412 hectares. The project is expected to generate at least one megawatt of power to be supplied to the Luzon Grid.

11.3 The Project is a result of the joint expertise and resources of NDC and PNOC RC, where the latter will undertake the operations and management of the hydropower plant. In connection thereto, PNOC RC will be paid a ten per cent management fee based on the total project employees' cost on a monthly basis.

11.4 On December 17, 2014, NDC infused P45 million representing its 50 per cent share of the total required capital for the Project and shall jointly monitor the Project through its participation in the Project Monitoring Committee (PMC) formed by and between the parties.

11.5 On December 19, 2014, PNOC RC, NDC and Development Bank of the Philippines (DBP) entered into an Escrow Agreement wherein PNOC RC and NDC (the principals) shall deliver in escrow to DBP (the escrow agent) the amount of P45 million each or an aggregate of P90 million, intended for pre-development costs, engineering, procurement, construction and commissioning (EPCC), operation and maintenance and related expenses of the Project. The execution of the Escrow Agreement was pursuant to Section 8.1 of the MOA, which designates DBP as the escrow agent, for the administration of the Project funds.

11.6 Earlier, on October 25, 2013, PNOC RC and Nueva Ecija II- Area 2 Electric Cooperative, Inc. (NEECO- Area 2) entered into a Power Supply Agreement, wherein the latter shall purchase the full net energy output generated at any given point in time by the hydroelectric powerplant and shall enjoy priority dispatch being a renewable energy resource at a rate of four pesos per kilowatt-hour subject to yearly changes based on the consumer price index. The agreement is effective for eight years starting on the commencement of commercial operation of the power plant facility.

11.7 Verification of records disclosed that the Project started commercial operation on July 1, 2016, and the financial statements of the Project showed that, except for 2017, it continuously incurred losses since its commercial operation in 2016. Details are presented in Table 9.

Table 9 – Summary of Net Income (Loss) of Rizal Hydropower Project for 2016 to 2022

	Income	Expenses	Net Income (Loss)	NDC's 50 per cent share on Net Income (Loss)
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)	(856,490)
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)
2022	464,140	5,478,076	(5,013,936)	(2,506,968)
Total	**32,434,399**	**50,383,267**	**(17,948,868)**	**(8,974,434)**

11.8 Further, the Statements of the Financial Position of the Project from 2016 to 2022 disclosed the following:

Table 10 – Statements of Financial Position of the Project from 2016 to 2022

	2016	2017	2018	2019	2020	2021	2022
Assets	88,468,438	87,543,154	86,719,532	78,101,283	75,374,175	70,823,753	65,917,182
Liabilities	12,260,251	10,769,955	11,646,340	4,742,766	6,040,878	4,666,808	4,774,174
Equity	76,208,187	76,773,199	75,073,192	73,358,517	69,333,297	66,156,945	61,143,008

11.9 As shown in the preceding table, the Project's equity as of December 31, 2022, amounted to P61.143 million, 50 per cent of which amounting to P30.572 million represents the current balance of NDC's investment in the Project, which is way below its initial investment of P45 million. The significant decrease of P14.428 million or 32 per cent of NDC's investment is mainly attributed to its share in the continuous losses of the Project for the past seven years since it started commercial operation.

11.10 Moreover, it can be recalled that in the NDC Board of Directors' meeting on December 10, 2013, Management presented a financial internal rate of return of the Project at 12.36 per cent and the targeted payback period is eight years. As can be gleaned from the above tables, the financial assumptions of the Project are far behind its actual status after seven years since it started commercial operation in July 2016.

11.11 Furthermore, Section 9.1 of the MOA provides that:

The distribution of profits of the partnership will be made at least once a year, or at such time and in such amount as the PMC may, in its discretion, determine.

11.12 However, since 2016 up to date, no distribution of profits was made to the partners. The income and expenses were collected and disbursed from the escrow fund, thus the previously infused investment by the partners amounting to P90 million has not yet been recovered. As of December 31, 2022, the escrow fund has a balance of P6.869 million only.

11.13 On July 27, 2022, the Audit Team conducted an ocular inspection of the Rizal Hydropower plant which was non-operational at that time due to the following major issues:

a. Inconsistent and inadequate water flow rate going to the facility; and

b. One turbine is not functioning and there is a delay in the delivery of its spare parts from China to be used for replacement.

11.14 The generation of electricity/power in the facility solely depends on the volume of water in the PRISMC and its flow rate is being controlled by the National Irrigation Administration (NIA). During the rainy season, NIA regulates the flow of water from the dam going to different irrigation system canals to prevent flooding in the rice/vegetable plantations. While during the dry season, it releases more water through different canals directly to the plantations. Such that, the water flow rate going to the hydropower facility is not consistent, thus, affecting its operation.

11.15 We found the issue of the inconsistency and inadequacy of water flow going to the facility quite alarming since water flow/volume of water is a major consideration by any partner/investor before entering into this kind of business undertaking. Without enough water flow, the hydropower facility cannot function and generate electricity/power, thereby, affecting the revenue generation of the Project. This issue, including the regulation and control of NIA in the water supply, could have been raised in the feasibility study and could have been addressed during the planning stage of the Project. Thus, it appears that NDC failed to thoroughly evaluate the project prior to joining the business undertaking.

11.16 The hydropower plant became non-operational in April 2021 due to NIA's rehabilitation of the Upper Pampanga Integrated Irrigation System Main Canal 7 spillway gates and in mid-December 2021, it encountered synchronization issues. At the time the plant was non-operational, PNOC RC has a proposition to dispose of/sell the Project. However, now that NIA has completed the repair of the spillway gates, PNOC RC expects that the generation output/revenue will improve, thus, the proposition should be reevaluated. The assessment of the improvement can be made when the plant is operational. Eventually, the plant resumed operation on December 2, 2022.

11.17 During the PMC meeting on January 24, 2023, it was projected that in 2023, an additional major repair of the plant amounting to P8.959 million will be needed. This requires a capital infusion from the partners to maximize the operational performance of the plant. Such additional capital infusion is needed, considering that the cash balance as of December 31, 2022 amounts only to P6.869 million. Also, another projection was made that if the plant is non-operational, additional fund of P6.621 million is still needed to cover the fixed costs until such time that the disposal process of the plant is completed.

11.18 Based on the foregoing, we observed that the Project/hydropower plant is not in good condition and not performing financially well even after the lapse of seven years, thus affecting its viability. The investment of NDC should have been recovered/realized in the eight-year of operation of the Project based on Management's projection in 2013, however, a year before its payback period, additional capital infusion is still needed. Thus, Management should assess the status/condition of the Project in order to come up with the best decision to undertake on its investment.

11.19 **We recommended that Management:**

a. **Study the options available for NDC to recover its investment in the Project, such as the intention to sell the Project by the PNOC RC and consider the grounds for termination of the MOA as provided in Section 16.2 thereof, if based on assessment, the existing conditions adversely affect the operations and disadvantageous to the partners;**

b. **Assess/evaluate the current operational status and viability of the Project if it is still feasible and reasonable for NDC to infuse additional capital considering the Project's continuous losses; and**

c. **Henceforth, direct the Special Projects Group to evaluate thoroughly any planned projects/business proposals before NDC will enter and invest in such undertakings, with the end view of protecting the interest of the government.**

11.20 Management commented that during the January 2023 Rizal Hydropower Project Monitoring Committee (PMC) meeting, PNOC RC explored potential options, including a possible additional capital infusion and conduct of additional repairs to optimize the operation of the plant. However, these options have been put on hold pending the appraisal of the plant.

11.21 Management explained that with regard to the water flow going to the facility, adjustments in the flowrate are within the jurisdiction of NIA and beyond the control of NDC. Despite the inclusion of a study on the flowrate of the water supply prior to the construction of the plant, NIA has the authority to make changes in the flowrate since its primary priority is the irrigation requirements of the farmers. Accordingly, the technical team has coordinated with NIA on multiple occasions, requesting potential adjustments or resumption of the water flow. However, NIA consistently responded that they cannot make any promises as they must always consider the needs of the farmers.

11.22 Management further explained that other issues encountered was the synchronization of the plant to the grid after the NEECO II shutdown. The equipment's third-party provider visited the plant multiple times in an attempt to resolve the synchronization issue. However, it took nearly a year before the plant could operate again.

11.23 Meanwhile, Management informed that PNOC RC is currently in the process of procuring a third-party appraisal of the plant. Once the appraisal is completed, the PMC will decide on the appropriate course of action for the plant, including the possible disposal of it. The terms and provisions of the MOA, as well as the plant's performance, will be taken into consideration before determining whether NDC will proceed with the disposal or choose to infuse additional capital.

11.24 Management apprised that the SPG intends to revisit and further streamline its processes to ensure more efficient, comprehensive and solid assessment of future projects.

11.25 The Audit Team recognized the ongoing appraisal process being conducted by PNOC RC. The appraisal results, along with the terms/provisions of the MOA and the plant's performance, should be carefully considered in determining the appropriate course of action to take. Whether it involves disposal or additional capital infusion or conduct of additional repairs to optimize the operation of the plant, the decision should be aligned with the objective of realizing NDC's investment within a reasonable period.

11.26 We acknowledged the challenges related to water flow, which is under the jurisdiction of NIA and beyond the control of NDC. However, the availability and volume of water are indeed critical factors that should have been thoroughly evaluated during the feasibility study and planning stage of the project. This issue should have been addressed prior to the construction of the plant, as it directly impacts the operational capability and viability of the hydropower project. Similarly, the synchronization issue should be resolved promptly to minimize downtime and maximize the plant's operational efficiency.

11.27 Further, the Audit Team emphasized the importance of thorough evaluation, risk assessment and effective communication with the regulatory bodies to mitigate the impact of external factors on the project’s viability. By incorporating these practices, NDC can enhance its decision-making processes and protect its investments in future projects.

12. The balances of the car and housing loans granted to former NDC officials and employees aggregating to P0.822 million and P5.930 million, respectively, or a total of P6.752 million remained outstanding/dormant for two to 24 years.

12.1 This is a reiteration of the prior years' audit observation with updated information.

12.2 Our audit disclosed that NDC has granted car and housing loans to its former officials and employees. We have noted that car loans granted to former officials totaling P0.822 million and housing loans extended to former officers and employees aggregating to P5.930 million, or a combined amount of P6.752 million as of December 31, 2022, have remained outstanding or dormant for two to 24 years.

A. Car Loan

12.3 Section 9 of the Motor Vehicle Lease-Purchase Plan Guidelines of NDC provides that:

"Xxx. In the event that the availee refuses to surrender the vehicle, and/or pay for the cost of repair mentioned, NDC-FAD shall immediately refer the matter to the Legal Department for filing of appropriate legal actions."

12.4 As of December 31, 2022, the car loan balance amounting to P0.822 million pertains to the outstanding loan of the three former NDC officials which remained dormant for ten to 24 years. All three officials had already left NDC for more than a decade. For 2022, NDC did not send any demand or collection letters. The last correspondence sent by Management to these officials was on February 3, 2020. The summary of the outstanding car loan balances is presented in Table 11.

Table 11 – Outstanding Car Loan Receivables

Borrowers	Date of loan granted	Employment Status	No. of Years Dormant	Outstanding Balance
Official 1	August 31, 1993	Former NDC Director	24	378,000
Official 2	October 14,1999	Retired on October 20, 2003 and availed of the NDC retirement package under Executive Order No. 184.	18	171,212
Official 3	April 2007	Resigned on April 30, 2009	10	273,113
Total				**822,325**

12.5 The balances of the car loans of those who retired/resigned were not collected prior to the issuance of their clearances and the motor vehicles were not returned or surrendered by the borrowers. Instead of deducting the unpaid loans from their retirement or separation pay, NDC settled for an acknowledgment of outstanding loans and post-dated checks issued by the former NDC officials.

12.6 Records indicate that in 2018, NDC sent a letter to the Office of the Government Corporate Counsel (OGCC) to follow up request on 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 remained dormant to date.

B. Housing Loan

12.7 Item XII of the Housing Loan Agreement of NDC provides that:

"In case of default of payment by employee-borrower, or of retired/separated employees of monthly amortization for at least three consecutive months, the obligation shall immediately become due and demandable and such default shall be considered a sufficient ground to foreclose the mortgage or institute other legal proceedings. The Legal Department shall institute the necessary action against the employee-borrower upon the recommendation of the Housing Loan Committee."

12.8 Audit of Receivable accounts as of December 31, 2022, showed that housing loans granted to 19 former employees/borrowers, including one non-NDC employee who was assigned to the Corporation, aggregating to P5.930 million, remained dormant for a period ranging from two to 23 years.

12.9 From the 19 delinquent housing loan accounts as of December 2019, NDC was able to foreclose the mortgaged property of one borrower and received full payment from another borrower. However, as of December 31, 2022, two more accounts have been classified as delinquent for not paying their loans for two to three years. Details are presented in Table 12.

Table 12 – Outstanding Housing Loan Receivables

Employees	Date of loan granted	Status of Loan Receivables	No. of Years Dormant	Outstanding Balance
Employee 1	September 1998	Case is ongoing	23	302,848
Employee 2	August 2000	With certificate of sale in favor of NDC dated Nov. 25, 2021	19	406,539
Employee 3	August 1998	With a certificate of sale in favor of NDC dated June 4, 2020	18	298,519
Employee 4	October 2001	For filing of extrajudicial foreclosure	17	372,201
Employee 5	October 1999 and October 2003	For filing of extrajudicial foreclosure	17	179,264
Employee 6	May 1996	For filing of extrajudicial foreclosure	17	134,070
Employee 7	October 2002	For filing of extrajudicial foreclosure	16	287,613
Employee 8	March 1999	For filing of extrajudicial foreclosure	13	120,738
Employee 9	July 1999	For filing of extrajudicial foreclosure	9	199,303
Employee 10	March 2000	For filing of extrajudicial foreclosure	9	142,749
Employee 11	July 2006	For filing of extrajudicial foreclosure	8	1,440,576
Employee 12	May 1998	For filing of extrajudicial foreclosure	6	264,277
Employee 13	June 2001	For filing of extrajudicial foreclosure	5	378,597
Employee 14	December 1999	For filing of extrajudicial foreclosure	5	265,190
Employee 15	September 1995 and March 1998	For filing of extrajudicial foreclosure	5	167,767

Table 12 – Outstanding Housing Loan Receivables

Employees	Date of loan granted	Status of Loan Receivables	No. of Years Dormant	Outstanding Balance
Employee 16	April 1999	For filing of claims against the estate to be referred to OGCC	18	450,260
Employee 17	1999	For filing of claims against the estate to be referred to OGCC	6	322,780
Employee 18	November 2002	For collection in coordination with Treasury Unit	3	177,447
Employee 19	October 1995 and February 1998	For collection in coordination with Treasury Unit	2	18,798
Total				**5,929,536**

12.10 As shown in the preceding table, the status of 19 delinquent housing loan borrowers is summarized as follows:

a. One borrower has an ongoing case;
b. Two have certificates of sale in favor of NDC;
c. Twelve are for filing of extrajudicial foreclosure;
d. Two are for filing of claims against the estate which will be referred to OGCC; and
e. Two are being pursued for collection by the Treasury Unit.

12.11 The foregoing status of the delinquent accounts were derived from the NDC's Status Report of Unliquidated Cash Advances, Fund Transfers and Other Receivables for the 2nd semester of CY 2022. However, the Audit Team cannot validate the actions taken by Management on the delinquent accounts due to the non-submission of supporting documents, such as copies of demand letters and other pertinent documents.

12.12 Given that these receivables have been outstanding for a considerable period of time and remained dormant, it was established long ago that these former NDC employees were in default of their loan payments. Consequently, in accordance with the provisions of the Housing Loan Agreement, once the borrowers are on default without further notice, the outstanding balances of the loans become immediately due and demandable. There are sufficient grounds for immediate foreclosure of mortgaged property and/or for institution of other legal proceedings.

12.13 We acknowledged the efforts of Management in recovering the loans granted to their former employees through legal actions and receiving full payment for one delinquent account. However, we are also of the view that Management should have exerted more intensive and prompt efforts to recover/collect said loans from former NDC officials and employees. These loan receivables once collected can be used as additional funds for NDC's operations.

12.14 **We reiterated our prior years' recommendations with modification that Management:**

a. Require the Legal Department to fast track the filing of extrajudicial foreclosure and/or of claims against the estates for the 14-defaulting former NDC officials and employees;

b. **Direct the Treasury Unit to demand payment from the two new delinquent borrowers, otherwise, refer the matter to the Legal Department for legal action;**

c. **Expedite the process of acquiring the properties under NDC's name for the two accounts with certificate of sale;**

d. **Submit status/monitoring report to the Audit Team regarding the car and housing loan accounts including copies of demand letters, filed case and/or other pertinent documents to prove the actions taken to enforce collection of the dormant receivables; and**

e. **Strictly enforce sanctions provided in the housing loan agreements thru the Legal Department.**

12.15 Management commented that the Legal Department is exerting its utmost effort to file and foreclose the mortgage on the properties of the former NDC employees who have been remiss in their obligation to pay their loan within the period agreed upon in the Loan Agreement. The hiring of additional lawyers to fill up the vacant positions in the Legal Department is now being processed to expedite, among others, the filing of the petitions to foreclose the mortgage on the properties, and the eventual resolution of the unpaid Housing and Car Loans.

12.16 The Audit Team will monitor Management's actions on the issues at hand.

13. Eight Investment Properties of NDC were either idle/vacant, occupied by illegal occupants or not fully utilized for income-generating activities, depriving NDC of potential income that can be derived therefrom while incurring maintenance expenses aggregating to P5.746 million which is contrary to the policy of the government set forth in Section 2 of Presidential Decree (PD) No. 1445.

13.1 Section 2 of PD No. 1445 provides that:

> *"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 safeguarded 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."*

13.2 NDC owns investment properties located in different parts of the country, which are held for the purpose of earning rentals or capital appreciation, or both. However, during the ocular inspection, it was observed that some of these properties were idle/vacant and/or occupied by illegal settlers. Details are presented in Table 13.

Table 13 – Ocular Inspection of Investment Properties

Location	TCT/Tax Declaration No.	Area in square meters (sq.m.)	Fair Market Value
Barangay Daliao, Toril, Davao City	T-432103-04; 432073-74	249,595	823,663,500
San. Juan St., Bacolod City	T-96230 to 235	13,197	364,240,000
Diliman, Quezon City	T-218982	1,012.50	199,462,500
Meycauyan, Bulacan	T-79228 (M)	5,231	41,850,000
San Dionisio, Paranaque	T-47779 to 782	1,426	44,920,000
Sambag, Cebu	T-175052-53	613	36,900,000
Sta. Mesa, Manila	199748 & 798, 2122182 & 183	44,202	13,295,767
Guadalupe, Cebu City	T-162112	232	3,180,000

13.3 The status of the properties inspected by the Audit Team are summarized below:

a. Barangay Daliao, Toril, Davao City Property

The property comprises four contiguous lots with a total area of 249,595 square meters. On August 5, 2015, NDC and the City Government (CG) of Davao entered into a Memorandum of Agreement (MOA) for the use of a five-hectare portion of the property as the site for the Davao Food Terminal Complex (DFTC), formerly known as the Agri-Pinoy Trading Center. The initial duration of the MOA was 15 years, with the option for renewal upon mutual agreement.

However, on May 9, 2019, an amendment was made to the MOA. The amendment extended the duration of the agreement to 25 years and modified the payment period of the lease for the use of the site. Under the amended MOA, the lease will be paid starting from the eighth year of DFTC's operations, as opposed to the eighth year from the execution of the original MOA. The CG of Davao officially launched the trading facility on October 18, 2022.

During our inspection, we observed that only a few vendors were selling agricultural produce, and most of the stalls were still empty/unoccupied. The DFTC appeared to be not fully operational and not generating income due to the limited number of traders.

Based on NDC's Report for Programs, Projects, and Activities for the 4th quarter of CY 2022, the previous intention to sell the property to CG-Davao was deferred due to consideration of other options that would be most advantageous to the government and align with the priorities of the new NDC General Manager. NDC Management informed the NDC Board of Directors of this decision during the latter's meeting on December 9, 2022, based on the general assessment conducted by the new General Manager.

Currently, no income is generated from the property and NDC continuously incurs expenses for security services and real property taxes for the unused portion.

Additionally, we noted that informal settlers have occupied the outer areas of the property. According to the guard on duty, there are 57 households residing in onestorey semi-concrete to timber-framed houses, illegally occupying certain sections of the property.

b. San Juan Street, Bacolod City Property

The property is a vacant lot, enclosed by a perimeter fence and monitored by assigned security personnel. However, it is evident that the property is not well-maintained since tall grasses and other plants are growing throughout the lot. Additionally, scrap/junk items and several motor vehicles under repair can be found near the main gate of the property.

The immediate surroundings of the property consist of residential areas, but the same is rapidly undergoing transformation into an industrial and/or commercial zone. This transformation is evident from the construction of high-rise condominiums, malls and hotels.

c. Diliman, Quezon City Property

The property is located in a commercial area surrounded by mixed-use buildings, shopping malls, hospital and school. It has been vacant since 2020 when the last lessee left the property. Previously, it was used by the lessee as a gas service station.

On January 19, 2023, a lease contract was entered covering almost half of the property comprising 502.45 square meters. The lease term is for one year commencing on December 15, 2022 and renewable at the option of the parties. The monthly rental rate for the leased area is P250,000.

d. Meycauayan, Bulacan Property

The property exhibits poor maintenance with tall grasses and small trees scattered throughout. A portion of the property with an area of 2,000 sq. m. was previously leased as a junkyard. However, since the termination of the lease contract in 2019, the property has remained vacant. The Transfer Certificate of Title (TCT) is still registered under the name of Crowntex Realty Corporation.

e. San Dionisio, Parañaque Property

The property consists of four contiguous lots, totaling an area of 1,426 sq.m. It is among the assets assigned from International Corporate Bank, but the title has not yet been transferred to NDC. Due to incomplete documentation regarding the ownership and identity of the property, NDC was unable to pay the annual Real Property Tax (RPT).

On the other hand, there is a privately-owned commercial building situated on the property. According to AMG, there is a pending case related to the property.

f. **Barangay Cogon, Sambag District, Cebu City Property**

The property is situated on the corner of a busy intersection. Within the property, there is an old two-storey residential building, where the first floor is currently utilized as a bakery.

Previously, NDC had initiated coordination with the owner of the bakery regarding rental payments for the property. However, the draft contract sent to the occupant, who owns the bakery was not acted upon. According to the personnel of AMG present during the inspection, there is now a pending ejectment case against the illegal occupants of the property.

We have noted that despite being the registered and rightful owner of the property, NDC has no control over the asset. It does not presently possess the ability to direct the use of this asset or obtain economic benefits associated with it. If proper management had been implemented when NDC acquired the property, Management could have taken early measures to secure it from unlawful occupants.

g. **Sta. Mesa, Manila Property**

There are warehouses constructed on the property which have been occupied by private enterprises. According to AMG, and confirmed by Accounting personnel, the occupant of the property regularly remits rental payments to NDC. The payments are currently recorded as trust liabilities pending the negotiation of the lease with the occupant.

Also, we noted that no RPT was paid for the property even though the TCT is under NDC's name.

h. **Barangay Guadalupe, Cebu City Property**

During the ocular inspection conducted in November 2022, it was revealed that the property located in Barangay Guadalupe, Cebu City, covering an area of 232 sq.m., is currently designated as "road right-of-way" for residents of the community in the area. One portion of the property, measuring 185 square meters, serves as the primary road or pathway to access the properties located beyond it. A resident from a nearby socialized housing project informed the Inspection Team that the property is the only entrance and exit point for their community. On the other hand, the remaining 47-square meter portion of the property has been encroached upon and is filled with gravel, sand, bags of cement and other lightweight construction materials.

13.4 Furthermore, maintaining the foregoing properties entails costs in the form of security services and RPT. For CY 2022, NDC incurred maintenance expenses aggregating to P5.746 million. Details are presented in Table 14.

Table 14 – Expenses Incurred for Non-productive and Not Fully Utilized Investment Properties

Location	Security Services	RPT	Total
Barangay Daliao, Toril, Davao City	2,422,765	826,348	3,249,113
San. Juan St., Bacolod City	741,335	146,552	887,887
Diliman, Quezon City	703,541	98,415	801,956
Meycauyan, Bulacan	784,894	18,949	803,843
Sambag, Cebu	0	2,567	2,567
Guadalupe, Cebu City	0	564	564
Total	**4,652,535**	**1,093,395**	**5,745,930**

13.5 The continuous idleness and non-utilization of the above-mentioned real properties for productive and economic use are not in consonance with the policy of the government set forth in Section 2 of PD No. 1445 that all resources of the government shall be managed and utilized in accordance with law and safeguarding against loss or wastage through improper disposition with a view to ensuring efficiency, economy and effectiveness in government operations.

13.6 **We recommended that Management:**

a. **Intensify marketing efforts and strategies in converting the non-productive investment properties to income-generating units and explore alternative uses for the vacant properties not suitable for commercial purposes or project development;**

b. **Coordinate with the City Government of Davao to clear the property from illegal settlers to avoid possible delay/dispute when the property will be leased or disposed of;**

c. **Direct the AMG, in coordination with the Legal Department, to take appropriate measures to assert ownership, demand compensation and initiate legal action against individuals illegally occupying the Sambag District, Cebu City Property for commercial purposes without due compensation to NDC; and**

d. **Direct the AGM of AMG to coordinate with the City Government of Cebu to obtain pertinent legal documents regarding the property's designation as a "road right-of-way".**

13.7 Management commented that the Property Roadmap is currently being revisited and aligned with the COA's recommendation to intensify marketing efforts and strategies in order to generate maximum revenues and benefits from NDC's assets.

13.8 Further, Management reiterated their commitment to relentlessly pursue ways to optimize the use of the investment properties in question.

13.9 Management informed regarding the Barangay Daliao, Toril, Davao City property that there are outstanding orders given to the assigned guards to secure the premises to prevent the additional entry of illegal settlers on the property.

13.10 On the other hand, Management commented that the lease of the Sambag District, Cebu City property on an "as is where is basis" was already approved. The Management is facilitating the negotiations with the prospective lessee, who shall take care of addressing the issue of the informal settlers on the property.

13.11 Moreover, Management also commented that the Legal Department will be instructed to prepare for initiating appropriate legal courses of action in the event that the lease will not push through.

13.12 Lastly, Management commented regarding the Guadalupe, Cebu City property that the AMG will study the matter and ascertain the necessary and best courses of action for the property. This will include coordinating with the City Government of Cebu regarding the use and classification of the subject property as a “road right-of-way”.

13.13 The Audit Team will monitor Management’s compliance with the recommendations.

14. NDC’s various Investment Properties were occupied by illegal occupants for residential, commercial and personal purposes, thus depriving NDC of the benefits (civil, natural, and industrial) that could have been derived therefrom.

14.1 This is a reiteration of the prior years’ audit observation with updated information.

14.2 Article 428 of the Civil Code of the Philippines provides that:

The owner has the right to enjoy and dispose of a thing, without other limitations than those established by law. The owner has also a right of action against the holder and possessor of the thing in order to recover it.

14.3 Since CY 2016, we have been conducting a series of ocular inspections of NDC’s properties located in various parts of the country. One of the common observations noted during those activities was the occupancy of illegal settlers on these properties for their own use.

14.4 The status of the properties which were occupied by illegal settlers and inspected by the Audit Team from 2016 to 2019 located in various places, are as follows:

a. Calatagan, Batangas

The property consists of two parcels of lot planted with “palay” by two individuals. NDC will coordinate with the Local Government Unit (LGU) of Calatagan for assistance in convincing the farmers to vacate the property or convince them to pay rent to NDC for their occupancy of the area.

Management has sought the assistance of the LGU-Calatagan on the unauthorized farming on the property.

b. Puerto, Cagayan de Oro

This property shall be covered by the Community Mortgage Program (CMP) of the Social Housing Finance Corporation (SHFC). The informal settlers already organized themselves as a requirement of the CMP. However, NDC is yet to title this property in its name which is a requirement by SHFC for the property to be covered by CMP.

On April 14, 2023, the Asset Management Group (AMG) conducted an ocular inspection to assess the condition of the property. Additionally, Management is consolidating all the required documents for filing a Petition for Land Registration in court which may be requested remotely. Once the pre-requisite documents are complete, Management informed that they will schedule a trip to Cagayan de Oro to request the necessary documents from the pertinent offices.

c. San Francisco, Del Monte, Quezon City

The property is slated for titling in NDC's name. However, the Management still awaits the Order of Finality from the Court covering the reconstitution of the title of the previous owner. Once received, the process of reconstitution of the title and the transfer to NDC's name will proceed. Thereafter, the CMP process for the occupants will push through.

AMG has referred the matter to the Legal Department for coordination with the Court to request for updates on the issuance of the Order.

d. Sucat, Muntinlupa

This is an almost four-hectare property that was developed into a housing subdivision by virtue of a Joint Venture Agreement (JVA) executed by and between NDC and New San Jose Builders, Inc. (NSJBI) on October 23, 1993. Upon ocular inspection in 2017, we observed that a portion of the property was used as a jeepney terminal. Accordingly, such an area was leased by the jeepney operators' association from NSJBI. A building was also constructed right behind the jeepney terminal and is being used as the office of a security agency that is not associated with NSJBI. Scrutiny of the JVA disclosed that leasing of the subject property to any party is not among the responsibilities of NSJBI. Such act belongs to NDC being the owner of the property. Its responsibility is mainly to develop and construct housing units and marketing thereof.

Management already sent another letter dated June 16, 2021 to NSJBI citing NDC's decision contained in its previous letter of June 27, 2016 that NDC will elevate and settle the disputed issues to an arbitration proceeding as provided in the JVA.

Also, NDC reiterated its demand for NSJBI to return and turn over to NDC the possession of the land subject of the JVA. The issue of the jeepney terminal is part of the demand to vacate the property and an issue to be settled in the arbitration proceedings.

Finally, NSJBI was informed that NDC elects to hold the arbitration proceedings in Metro Manila pursuant to Section 18 of the JVA should NSJBI failed to respond to NDC's demand to return the property.

e. Hermosa, Bataan

This is a five-hectare property retained by Comprehensive Agrarian Reform Program. The area along the barangay road was occupied by informal settlers whose houses were made of light and concrete materials. The bigger portion of the property is vacant which serves only as pasture for animals. During the ocular inspection, we noticed a few houses erected at the back-end portion (area not along the barangay road) of the property.

In 2019, a relocation survey was made to determine the property boundaries. It was confirmed in the report that these settlers have encroached upon the property.

Management is in contact with the occupants of the property. They are interested in acquiring the property through CMP. To undertake the process, the occupants need to organize themselves into a community association and look for a CMP mobilizer who would assist them in the implementation of the program. Management informed that they will exert effort for the realization of this mode of disposition.

f. San Felipe, San Fernando, Pampanga

The property was approved by the NDC Board for sale thru the CMP at the approved price of P458,561 in 2015. Sixteen informal settlers who occupied the property signified their intention to avail of the CMP under the name of “San Felipe Riverside Home Owner’s Association”. A CMP-Mobilizer who would assist them in the implementation of the CMP had backed out and the President of the Association had a heart attack, setting back the next course of action of NDC.

The CMP process for the property was stalled for lack of mobilizer that will assist the San Felipe Riverside Home Owner’s Association (SFRHOA), which is a requirement of SHFC for the program. In the interim, Management will get the updated market value of the property since the Board approved price amounting to P458,561 is based on the 2015 value.

Management will continue to coordinate and monitor updates from SFRHOA for the completion of the CMP transaction.

g. Bo. Dolores, San Fernando, Pampanga

The property is located inside a subdivision. It is enclosed by a concrete fence and serves as a recreational area for the residents, where a basketball court, stage and small multi-purpose building were constructed. Also, erected on the property is the Dolores Homesite Material Recovery Facility where recyclable waste materials were segregated. It was noted that the Dolores Homesite & Extension Homeowner’s Association, Inc. (DHEHAI) does not pay rental to NDC for the use of the property. Negotiations with the Local Government Unit (LGU) for government-to-government acquisition of the property for use of the residents did not materialize.

In accordance with the property roadmap, Management will proceed with the planned disposal of the property through CMP with the DHEHAI. Management will seek the assistance of the SHFC on how to assist the association in getting a mobilizer for the program.

h. Los Baños, Laguna

The property is occupied by informal settlers and included in the scope of Presidential Proclamation (PP) No. 550 s. 2004 reserving the land for housing site purposes. NDC in a letter dated May 20, 2019, made a follow-up with LGU- Los Baños on the status of NDC's request for the exclusion of the property from PP No. 550 s. 2004.

Based in the February 7, 2020 meeting attended by NDC with the Municipal Urban Development and Housing Board-Local Inter-Agency Committee (MUDHB-LIAC), the following agreements were reached: 1) LIAC will not issue a Certificate of Lot Award for the occupants of NDC property; 2) Department of Environment and Natural Resources (DENR), Region 4 to assist the LGU-Los Baños in the validation/verification of TCT issued to NDC and conduct a survey covered by PP No. 550 (Per DENR representatives, the subject NDC property is part of the military reservation area, hence cannot be titled by a private party); and 3) Exclusion of NDC property from the coverage of PP No. 550, if NDC TCT is found valid. Management still awaiting update from MUDHB-LIAC on the validation of NDC TCT.

Management informed that LIAC, LGU-Los Baños, a committee created to implement the PP No. 550 is still on the process of validating the NDC TCT. The DENR Region 4 also assists in the validation. On the other hand, the Department of Human Settlement and Urban Development will take charge of the amendment of the PP No. 550 to exclude the NDC property from the coverage, once the TCT of NDC is found valid.

Management will request LIAC to fast-track the title verification process so it can finally exclude the NDC property from the PP No. 550 coverage. In the interim, the occupants of the property were not issued the corresponding Certificate of Land Ownership under PP No. 550.

14.5 **We reiterated our prior years' recommendation and Management agreed to review the plans of action and provide updates to the Audit Team on the actions taken to improve and monitor the condition of these properties.**

15. Several Investment Properties remained idle/vacant, depriving NDC of income from the prospective use of such properties while incurring expenses for security services and real property taxes.

15.1 This is a reiteration of the prior years' audit observation with updated information.

15.2 NDC owns investment properties located in various parts of the country. The Corporation earned lease income amounting to P204.375 million and P186.402 million for CY 2022 and 2021, respectively, from its leased properties. However, there are still several assets that remained idle/unused.

15.3 The status of the idle properties inspected by the Audit Team from 2016 to 2019 in various locations are shown below:

a. Bonot, Legazpi City, Albay

During the 2019 ocular inspection of NDC properties, the exact location and boundaries of the land cannot be ascertained. Based on the TCTs on hand, ownership was still under the name of Continental Bank (CB).

Management informed that CB is the predecessor of the International Corporate Bank (ICB). The property is one of the assets assigned by ICB to NDC in 1983. Management secured from the Bangko Sentral ng Pilipinas (BSP) a certification dated May 27, 2022 stating that CB is not among the financial institutions supervised or registered with the BSP. As such, BSP does not have any records and information on the reopening of CB as ICB.

Management further informed that they will need to explore other avenues to secure documents showing that both banks are one and the same in order to support the annotation of the Deed of Assignment, and thereafter process the titling in NDC's name. Once the above issues are settled, the subject property will be scheduled for its disposal, being a residential lot.

b. Echague, Isabela

Management informed the Audit Team that the subject property is among the properties submitted to the Board of Investments (BOI) for possible development under the Investment Priorities Plan of the government. Management also considers other possible options that will give NDC source of income either through lease or property development with the LGU under government-to-government transaction.

c. Sta. Fe, Bantayan, Cebu

The subject vacant property was declared as one of wilderness areas under PP No. 2151, s.1981 where sale and forms of disposition of any property is prohibited, but subject to existing recognized and valid private rights. Hence, titling of the property in NDC's name cannot be processed. Management will continue to invite interested parties to lease or develop the property in order to generate income for NDC.

d. Macasandig, Cagayan de Oro

The subject property is slated for disposal. Management to secure approval of the NDC Board for the said sale.

e. Kamagong & Sampaloc Streets, Makati City

The subject property is also slated for disposal, Management will secure approval of the NDC Board for the said sale.

In 2022, Management informed that they already installed a notice/signage at the site notifying that the property is available for lease. Thereafter, numerous inquiries were received about the lease of the said property.

f. **Batangas II, Mariveles, Bataan**

Management will dispose of the subject property through a government-to-government sale transaction with the LGU-Bataan once the development plan and the budget for the expansion site of the Batangas II High School is approved.

g. **San Juan, San Fernando, Pampanga**

Management intends to dispose of the subject property through public bidding.

h. **Bo. Langihan, Butuan City**

Management is waiting for the decision of the HLURB on NDC's offer to acquire the property for the housing program of the government.

i. **Barangay Tagapo, Sta. Rosa, Laguna**

Management will continue to negotiate with Chevron Philippines, Inc. for the payment of back rentals or compensation to NDC resulting from the use of a portion of the subject property by 7-Eleven Convenience Store, and as an ingress/egress of vehicles going to/ from the Caltex Station.

j. **Talakag, Bukidnon**

This property is an idle residential lot and there is an ongoing process for transferring the title in NDC's name. Once the title is obtained, the subject property will be scheduled for disposal, as it is designated for residential use.

15.4 Moreover, NDC incurred expenses for securing the idle property located in Kamagong & Sampaloc Streets, Makati City in the amount of P1.033 million and real property taxes of P227,160 for all idle properties enumerated earlier for the year 2022.

15.5 **We reiterated our prior years' recommendation and Management agreed to intensify efforts in converting these land assets into income-generating properties and expedite the process of disposing of the properties scheduled for disposal.**

16. Procurement for the Upgrade of Automated Transfer Switch (ATS) including necessary electrical works to complete the system at the Industry and Investment (I&I) Building thru Negotiated Procurement – Emergency Cases amounting to P4.884 million was not in accordance with Annex H of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184 and COA Circular No. 2009-001 dated February 12, 2009.

16.1 Item D.2(a), Section V of Annex H of the RIRR of RA No. 9184, provides instances when Negotiated Procurement under Emergency Cases may be resorted to, as follows:

> *i. In case of imminent danger to life or property during a state of calamity, or*
> *ii. When time is of the essence arising from natural or man-made calamities or*
> ***iii. Other causes where immediate action is necessary:***
> *a) **to prevent damage to or loss of life or property**, or*
> *b) to restore vital public services, infrastructure facilities and other public utilities. (Emphasis supplied)*

16.2 On August 16, 2022, a power shutdown in the I&I Building occurred due to the overheating/breakdown of the 1000-ampere ATS and its cables, which incident was reported by the lessee to NDC. It was immediately responded and necessary repairs were done by JT Max Power Equipment Corporation, the contractor and service provider of the subject ATS. However, upon continuous monitoring of the ATS, it was observed that the temperature of the cables at line two was rising. In order to prevent similar incident of overheating and power shutdown, the power loading and consumption at the I&I Building was decreased.

16.3 Subsequently, on October 4, 2022, NDC procured the services of Energylink Commercial thru Negotiated Procurement – Emergency Cases to conduct an electrical system audit (ESA) in order to evaluate and assess the current electrical system condition of the entire building and to give recommendations on the upgrading of ATS and necessary electrical works to be undertaken to prevent the previous incident from happening.

16.4 On October 17, 2022, Energylink Commercial submitted its technical evaluation that the existing 1000-ampere ATS installed at the I&I Building is not compatible to the power requirement and the wiring is not in compliance with the present Electrical Code. Also, the main circuit breaker is rated 3200 amperes, therefore the capacity of ATS should be the same. Hence, it was recommended to upgrade the ATS and rewire the feeder line to comply with the Electrical Code.

16.5 Based on the foregoing, the Asset Management Group (AMG) recommended the emergency procurement on the upgrade of the ATS to prevent further damage to properties and/or life, or any case of fire due to faulty electrical system. The full breakdown of ATS may result to shutdown of the whole building and tenant's operations. Thus, it should be addressed immediately due to lessees' concerns on their operation, safety, health and wellness.

16.6 Review of supporting documents and payment for the said procurement amounting to P4.884 million revealed the following deficiencies/lapses, to wit:

a. The procurement process lasted for 50 calendar days (CDs) defeating the urgency to address the identified need of NDC, which cast doubt on the appropriateness of adopting Negotiated Procurement – Emergency Cases as a mode of procurement.

16.7 Section 48.1, Rule XVI of the RIRR of RA No. 9184, provides that:

> *Subject to the prior approval of the Head of the Procuring Entity (HoPE), and whenever justified by the conditions provided in this Act, the Procuring Entity may,* ***in order to promote economy and efficiency, resort to any of the alternative methods of procurement provided in this Rule. In all instances, the Procuring Entity shall ensure that the most advantageous price for the Government is obtained.*** *(Emphasis supplied)*

16.8 Further, the specific guidelines for Negotiated Procurement under Emergency Cases set forth in Annex H of the RIRR of RA No. 9184, provides that:

> *Considering that the underlying reason to support a Negotiated Procurement through the* ***Emergency modality relates to "time element"*** *as when there is – a) imminent danger to life or property; or, b) when time is of the essence; or, c) immediate action is necessary, the Procuring Entity, through the HoPE, BAC, its Secretariat and End-User unit,* ***should consider appropriate timing or the proximity of time between the actual procurement activity to be conducted and the emergency sought to be addressed****, such that when the* ***reason or cause for the emergency has already been abated, adoption of competitive bidding as the primary mode of procurement shall be considered.*** *(Emphasis supplied)*

16.9 On October 18, 2022, NDC negotiated with Energylink Commercial to conduct the Upgrade of ATS including necessary electrical works to complete the system at the I&I Building. The NDC BAC recommended the award for the said procurement by means of Negotiated Procurement – Emergency Cases with a contract price of P4.884 million and was approved on October 25, 2022 by the General Manager.

16.10 The Notice of Award dated October 26, 2022, was issued and received by the contractor on October 27, 2022. However, review of disbursement voucher for the payment of the said procurement disclosed that the actual works started on December 7, 2022, the date of receipt of Notice to Proceed (NTP) by the contractor, and was completed on December 13, 2022 as evidenced by a Certificate of Completion and Acceptance.

16.11 Based on the foregoing, the whole procurement process took 50 calendar days (CDs) from negotiation with the contractor on October 18, 2022 up to receipt of the NTP on December 7, 2022, which deviates from the above-cited guidelines for Negotiated Procurement– Emergency Cases. In adopting this mode of procurement, "time element" is an utmost consideration since "there is an imminent danger to life or property; time is of the essence; and immediate action is necessary."

16.12 Inquiry with AMG staff disclosed that the lengthy procurement process was mainly due to the review of the contract where it took considerable time. The contract was submitted for review to Legal Department on November 4, 2022 and the contract was signed on December 7, 2022. The period of contract preparation and signing was more than one month or 33 CDs. Such period was too long compared with the maximum CDs allowed for this activity, which is only ten CDs for procurement of goods and services thru competitive bidding as provided in Annex C of the RIRR of RA No. 9184.

16.13 The condition that necessitates the emergency procurement is the presence of an imminent danger to life or property, which requires immediate attention. Delay in addressing the reason of the emergency procurement will be of greater risk because faulty electrical system is the primary cause of fire incidents in residential and commercial establishments.

16.14 However, the lengthy procurement process that lasted for 50 CDs contradicts the rationale of emergency procurement, which is timeliness. It appears that there was no actual urgency on the procurement process and that the underlying reason for resorting to emergency procurement has been abated. This casts doubt on the appropriateness of the chosen mode of procurement.

16.15 As such, the adoption of competitive bidding as the primary mode of procurement should have been considered in order to obtain the most advantageous price for NDC. Also, considering that the earliest possible time for the procurement of goods and services thru competitive bidding is only 26 CDs, as set forth in Annex C of the RIRR of RA No. 9184, the 50 CDs spent in the procurement process thru Negotiated Procurement– Emergency Cases is unwarranted.

b. The financial capability of the contractor was not established prior to the award of the contract which is an essential requirement in any alternative modes of procurement adopted such as Negotiated Procurement– Emergency Cases.

16.16 Item D.2(b), Section V of Annex H of the RIRR of RA No. 9184 prescribes the following procedures in conducting Negotiated Procurement under Emergency Cases:

i. The End-User unit or the duly authorized official or personnel shall submit a request to the BAC or the HoPE, as the case may be, accompanied by appropriate supporting documents identifying the emergency sought to be addressed, and the necessary goods, civil works or consulting services (e.g., Technical Specifications, Scope of Work or Terms of Reference) that have to be procured to address the emergency.

ii. The BAC or the End-user unit or any other appropriate bureau, committee, support or procuring unit shall recommend to the HoPE any revision of the Annual Procurement Plan (APP) to cover the Procurement Project that will be subject to Negotiated Procurement (Emergency Cases) under Section 53.2 of the 2016 revised IRR subject to the validation by the appropriate office in the Procuring Entity that there are funds in the budget to cover for the same.

iii. The HoPE may delegate to either the BAC or the End-user unit or any other appropriate bureau, committee, support or procuring unit the authority to ***directly negotiate with a legally, technically, and financially capable supplier, contractor, or consultant*** *for procurement undertaken through any of the allowable instances of Negotiated Procurement (Emergency Cases) under Section 53.2 of the 2016 revised IRR.*

iv. ***Upon confirmation and ascertainment of such capability to address the emergency,*** *the HoPE, upon recommendation of the BAC or the End-user unit or any other appropriate bureau, committee, support or procuring unit, authorize* *for the purpose* ***shall immediately award the contract to the Supplier, Contractor or Consultant.*** *(Emphasis supplied)*

16.17 The AMG requested the procurement on the Upgrade of ATS including necessary electrical works to complete the system at the I&I Building thru Negotiated Procurement – Emergency Cases modality and the HoPE approved the same. Based on the updated Annual Procurement Plan (APP) of NDC for CY 2022, the said procurement was already included and approved by the HoPE.

16.18 After the approval by the HoPE, the AMG directly negotiated with Energylink Commercial and the latter submitted a quotation of P5.105 million for the project. Thereafter, both parties agreed with the proposed terms and conditions and come up with the final negotiated price of P4.884 million.

16.19 Inquiry with AMG staff revealed that they have requested the contractor's business permit, income tax return (ITR) and omnibus sworn statement as required under Appendix A of Annex H of the RIRR of RA No. 9184 to ascertain its legal, technical and financial capability. However, verification by the Audit Team of the contractor's audited financial statements as of December 31, 2021 attached to the submitted ITR disclosed the following:

a. Cash is P295,121 which is only 6 per cent of the contract cost;
b. Total current assets is P1.244 million or 25.46 per cent only of the contract cost;
c. Total assets is P4.120 million which is also smaller than the contract cost;
d. Total sales for CY 2021 is only P3.324 million; and
e. The total capital is only P3.902 million.

16.20 Also, based on the contractor's registration (platinum membership) in Philippine Government Electronic Procurement System (PhilGEPS), its PCAB license belongs to Category E, which means that the allowable range of contract cost that can be awarded to the contractor is up to P1 million only.

16.21 It appears that the contractor is not financially capable to enter into and to be awarded on such contract. The information derived from its audited financial statements and the category of its PCAB license shows significant doubt on its financial capacity to implement the contract.

16.22 The submission of the documentary requirements is not enough to satisfy that a contractor is legally, technically and financially capable. The BAC or the end-user who directly negotiates with the contractor should verify and evaluate the submitted documents in order to confirm and ascertain the contractor's legal, technical and financial capabilities to enter into and implement the contract.

c. The reasonableness of the contract amount cannot not be determined due to incomplete documents which are needed for technical evaluation of the contract as required under Annex F and G of COA Circular No. 2009-001 dated February 12, 2009.

16.23 Annex F and G of COA Circular No. 2009-001 dated February 12, 2009, provided a checklist or list of documentary requirements for technical evaluation of goods and services procurement contracts and inspection/validation of items delivered and installed, as follows:

a. Copy of the approved contract;
b. Technical and financial proposal of the winning contractor;
c. Complete set of technical specifications;
d. Approved detailed plans/drawing/layout, if applicable;
e. Conditions of contract;
f. Copy of the document containing the approved breakdown of the Approved Budget for the Contract (ABC) and contract cost;
g. Sales invoice and delivery receipt;
h. Certificate of acceptance; and
i. Performance/quality test results.

16.24 Review of supporting documents of the contract and disbursement voucher revealed that no detailed breakdown of the ABC and contract cost were prepared and submitted.

16.25 The Audit Team cannot establish the reasonableness of the contract price since based on the submitted documents, it is a lump-sum amount. There is no detailed breakdown of such amount based on the deliverables as shown in the Terms of Reference. Also, we noted that the ABC and contract cost are the same or equal, which appears that the end-user only relied on the submitted proposal of the contractor.

16.26 The incomplete submission of documents needed for technical evaluation of the subject contract resulted to inability in determining the reasonableness of the contract amount, thus, the most advantageous price for the government is not ensured.

d. The Contract and Notice to Proceed (NTP) were not posted on PhilGEPS and NDC websites contrary to Item L.2, Section IV of Annex H of the RIRR of RA No. 9184.

16.27 Item L.2, Section IV of Annex H of the RIRR of RA No. 9184, provides that:

> ***Posting of Notice of Award (NOA), Contract and Notice to Proceed.*** *Unless the contract involves and affects national security as determined by the HoPE in accordance with Section IV(D) of this Guidelines,* ***the BAC, through its Secretariat****,* ***shall post the NOA, Contract/PO, including the NTP if necessary****,* ***for information purposes, in the PhilGEPS website, the website of the Procuring Entity (PE) concerned,*** *if available, and at any conspicuous place reserved for this purpose in the premises of the Procuring Entity within ten (10) days from their issuance, except for contracts with ABC of Fifty Thousand Pesos (₱50,000.00) and below. (Emphasis supplied)*

16.28 Verification and review of disbursement voucher showed that the contract entered into by and between NDC and and Energylink Commercial on December 7, 2022 and the NTP were not posted both on PhilGEPS and NDC websites. Only the NOA was posted on PhilGEPS website.

16.29 The non-posting of the subject contract and NTP was not in conformity with the above-mentioned requirement of Annex H of the RIRR of RA No. 9184, which is for information purposes to enhance transparency in the procurement process of NDC.

16.30 The procedures implemented by NDC in the conduct of Negotiated Procurement under Emergency Cases were not fully compliant with the provisions set forth in Annex H of the RIRR of RA No. 9184 and COA Circular No. 2009-001 dated February 12, 2009, thereby, defeating the principles of transparency, efficiency and economy espoused by the Procurement Law.

16.31 **We recommended that Management:**

a. Submit justification on the appropriateness of adopting Negotiated Procurement- Emergency Cases modality considering that the procurement process lasted for 50 CDs;

b. Adopt competitive bidding as the primary mode of procurement if the reason or cause for the emergency has been abated;

c. Provide justification why the contractor was awarded the contract despite apparent financial incapability. Such justification shall be supported with pertinent documents to prove its financial capability;

d. Submit the lacking documents needed for technical evaluation of the contract in order to determine the reasonableness of the contract amount;

e. Explain why the contract and NTP were not posted on PhilGEPS and NDC websites; and

f. Henceforth, comply with the relevant provisions of the RIRR of RA No. 9184 in conducting Negotiated Procurement- Emergency Cases.

16.32 Management justified that the reason or cause of the emergency is the old ATS, hence, there is a continuing emergency until and unless the same has been replaced. The condition was demonstrated by power shutdowns in the building caused by smoke and a burning smell emanating from the ATS and its cables, thus, immediate action is required to prevent potential loss of life and property.

16.33 Management informed that there was a slight delay in the review and finalization of the contract, as this is the first instance when NDC has resorted to Negotiated Procurement under Emergency Case with an amount exceeding P1 million. Since there are no existing precedents or template documents, the Legal Department had to conduct a thorough review of the contract.

16.34 Further, Management commented that after complying with the necessary process and completing the required documents, the Contractor immediately commenced the necessary work. They promptly and efficiently delivered the required service on December 13, 2022.

16.35 Regarding the documentary requirements for a Negotiated Procurement-Emergency Case. Management commented that it was complied with and provided by the Contractor in accordance with Annex H of the RIRR of the RA No. 9184. Also, Management submitted list of completed and ongoing projects by the Contractor, copies of completion and acceptance documents for various projects to justify the Contractor's financial capability.

16.36 Furthermore, Management commented that the project has been successfully delivered and completed on December 13, 2022, thereby rendering the doubts on the contractor's financial capability moot.

16.37 Management submitted the detailed breakdown of the approved budget for the contract and updated electrical as-built plan of the I& I Building.

16.38 Management commented that the non-posting of the contract and NTP on PhilGEPS and NDC websites was due to mere inadvertence and informed that the BAC Secretariat has posted the contract and NTP on both PhilGEPS and NDC websites.

16.39 Lastly, Management assured that it will strictly adhere to and comply with the relevant provisions of RA No. 9184 and its RIRR, especially with respect to Negotiated Procurement under Emergency Cases.

16.40 We do not question the basis or reason of the emergency procurement adopted by NDC since there was indeed an emergency situation that needs to be addressed brought by the old ATS. However, the procurement process lasted for 50 CDs which is longer than the 26 CDs for competitive bidding. This raised doubts on the appropriateness of adopting Negotiated Procurement- Emergency in the procurement of ATS. This also created an impression that there is no emergency situation that needs to be addressed.

16.41 While we agree that the documentary requirements for Negotiated Procurement-Emergency Case were complied with by the contractor, the same should have been evaluated thoroughly to ascertain the legal, technical and financial capabilities of the contractor prior to the award of the contract.

16.42 Further, we do not concur to Management's view that since the project has been successfully delivered and completed by the contractor, the doubts on its financial capability is moot. We would like to emphasize that ascertainment of the financial capability of the supplier/contractor happened at the time of negotiation and prior to award of the contract and not after the implementation of the contract in compliance with the procedures set forth in D.2(b), Section V of Annex H of the RIRR of RA No. 9184.

17. The procurement process of various goods and services thru Small Value Procurement (SVP) and Shopping under Section 52.1(b) of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184 with an aggregate amount of P0.825 million took considerable time ranging from 50 to 79 calendar days (CDs), thus, the promotion of the principles of efficiency and economy in using alternative methods of procurement was not achieved.

17.1 Section 48.1, Rule XVI of the RIRR of RA No. 9184, provides that:

> *Subject to the prior approval of the HoPE, and whenever justified by the conditions provided in this Act, the Procuring Entity may,* ***in order to promote economy and***

efficiency, resort to any of the alternative methods of procurement provided in this Rule. *In all instances, the Procuring Entity shall ensure that the most advantageous price for the Government is obtained. (Emphasis supplied)*

17.2 Our audit disclosed that the procurement process of various goods and services undertaken thru SVP and Shopping under Section 52.1(b) with an aggregate amount of P0.825 million took significant amount of time ranging from 50 to 79 CDs from the date of the requisition by the end-users until the date of suppliers'/contractors' acceptance of the Job Orders (JOs)/Purchase Orders (POs).

17.3 Based on the foregoing, NDC has implemented a lengthy procurement process in the procurement of various goods and services which is contrary to the primary intention when adopting any of the alternative methods of procurement, which is to promote economy and efficiency in the government procurement. Instead of minimizing the number of days, the period of the procurement process undertaken by NDC thru SVP and Shopping under Section 52.1(b) takes longer, which almost doubles the earliest possible time allowed for the procurement of goods and services thru competitive bidding, which is only 26 CDs.

17.4 Also, the goods and services procured are essential to the day-to-day operation of NDC, thus, even a slight delay could be detrimental to its operation.

17.5 NDC should have properly observed and promoted the basic principles of efficiency and economy when resorting to alternative modes of procurement by streamlining the procurement process to save manpower resources and related expenses.

17.6 **We recommended that Management formulate an internal policy/guideline to standardize procurement process timeline for procurements thru alternative methods, with the end view of avoiding delays, thus, promoting economy and efficiency in the day-to-day operation of NDC.**

17.7 Management commented that the delays in the evaluation of proposals for procurements through alternative methods were caused by the following:

a. Verifications made on the eligibility, technical and financial aspects of the bids received;

b. Failure in procurement when no proposal is received; and

c. Failure in procurement when proposals received are not responsive to NDC's requirements.

17.8 We do not agree with Management's stated causes of delay in the procurements of goods and services thru alternative methods since instances, where there is failure of procurement, are excluded in the audit observations. Thus, we maintain our observation that there is a delay in the procurement of goods and services thru alternative modes of procurement.

18. The quotations submitted by some suppliers/contractors in the procurement of various goods and services thru SVP and Shopping under Section 52.1(b) with an aggregate amount of P0.591 million have no indicated date of submission or date of receipt and some were erroneously written, thereby, defeating the principles of transparency and fair competition espoused by the Procurement Law.

18.1 Item C.2(b), Section V of Annex H of the RIRR of RA No. 9184, provides the specific guidelines for Shopping under Section52.1(b), as follows:

> *v.* ***Upon receipt of at least three (3) quotations within the prescribed deadline****, the BAC shall prepare an Abstract of Quotations setting forth the names of those who responded to the Request for Quotation (RFQ), their corresponding price quotations, and the lowest calculated quotation submitted. (Emphasis supplied)*

18.2 Moreover, Item D.8(b), Section V of the same Annex, provides the specific guidelines for SVP, to wit:

> *v.* ***After the deadline for submission of quotations/proposals,*** *an Abstract of Quotations/Ratings shall be prepared setting forth the names of those who responded to the RFQ/RFP, their corresponding price quotations/ratings. (Emphasis supplied)*

18.3 Review of JOs/POs and supporting documents related to the procurement of various goods and services through SVP and Shopping under Section 52.1(b) with an aggregate amount of P0.591 million, revealed that the submitted quotations by some suppliers/contractors have no indicated date of submission nor date of receipt by NDC and some were erroneously written.

18.4 Verification disclosed that NDC posted its RFQ on the website of the Philippine Government Electronic Procurement System and encoded thereon the needed information which includes, among others, the deadline for submission of quotation. Also, NDC sent the same RFQ to various suppliers/contractors through mail, facsimile and telephone.

18.5 Although, there is no prescribed template or standard form for quotations, the interested supplier/contractor must indicate the date when it submitted the quotation or the date when it was received by NDC. This significant information is needed to facilitate a fair and objective evaluation of submitted quotations, ensuring that only those received within the deadline will be included in the evaluation.

18.6 The absence of this basic but vital information, such as the date of submission or receipt of the quotation, casts doubt on the procurement process and it does not promote the principles of transparency and fair competition espoused by the Procurement Law. It cannot be determined whether the suppliers/contractors submitted their quotation within the deadline.

18.7 **We recommended that Management direct the Administrative Unit to instruct any interested supplier/contractor to observe the deadline for submission of quotation by indicating the date of submission and henceforth, indicate the date of receipt of quotation, to enhance transparency and fair competition.**

18.8 Management commented that the Administrative Unit shall instruct any interested supplier/contractor to indicate the date of submission while the Administrative Unit shall indicate the date of receipt of the quotation, to enhance transparency and fair competition.

18.9 The Audit Team will monitor Management's compliance with the recommendation.

19. Non-imposition of liquidated damages to various suppliers on the late delivery of goods and services contrary to Item 3.1 of Annex D of the RIRR of RA No. 9184.

19.1 Item 3.1 of Annex D of the RIRR of RA No. 9184, provides that:

> *When the **supplier fails to satisfactorily deliver goods under the contract within the specified delivery schedule**, inclusive of duly granted time extensions, if any, the supplier shall be **liable for damages for the delay** and shall pay the procuring entity liquidated damages, not by way of penalty, an amount **equal to one-tenth (1/10) of one percent (1%) of the cost of the delayed goods scheduled for delivery for every day of delay** until such goods are finally delivered and accepted by the procuring entity concerned. The procuring entity need not prove that it has incurred actual damages to be entitled to liquidated damages. Such amount shall be deducted from any money due or which may become due to the supplier, or collected from any securities or warranties posted by the supplier, whichever is convenient to the procuring entity concerned. In case the total sum of liquidated damages reaches ten percent (10%) of the total contract price, the procuring entity concerned may rescind the contract and impose appropriate sanctions over and above the liquidated damages to be paid. (Emphasis supplied)*

19.2 Also, the terms and conditions of POs/JOs explicitly provide that:

> *3. Upon failure by supplier to deliver on agreed delivery date, NDC shall have the following options:*
>
> *a) To cancel contract and place immediate order to other supplier. Should the new prices given by other suppliers be higher than the price stated in this PO, the increase shall be charged against the bond of the defaulting supplier, if any.*
> *b) To extend the period for making delivery if the failure to deliver is due to causes arising from conditions beyond the supplier's control, delivery within the extended period is not subject to penalty.*
> *c) **To charge penalty of 1/10 of 1% per day of delay deductible from contract price payable under PO/JO.***

19.3 Examination of JOs/POs and supporting documents related to the procurement of various goods and services amounting to P113,968 thru alternative modes of procurement showed delays in the delivery of goods and services.

19.4 Verification of disbursement vouchers for the payments of the procured goods and services disclosed that NDC failed to deduct the corresponding liquidated damages due to the delay in the delivery at the rate of 1/10 of one per cent per day of delay. Our computation showed that NDC should have deducted in its payments to six suppliers liquidated damages amounting to P2,540.

19.5 The non-imposition of liquidated damages deprived NDC on the use and benefit of the procured goods and services on the stipulated time that it is needed. Moreover, this indicates that NDC failed to enforce the mutually agreed terms and conditions of the contract to protect its rights.

19.6 **We recommended that Management impose liquidated damages to defaulting suppliers/contractors from the stipulated delivery date in the JO/PO and strictly comply with Item 3.1 of Annex D of the RIRR of RA No. 9184.**

19.7 Management informed that the liquidated damages have been imposed for late delivery of goods and services. The identified transactions in the AOM are isolated cases and may have been overlooked due to the amount involved. However, Management will observe a stricter implementation of the imposition of liquidated damages on late delivery of goods and services.

19.8 The Audit Team will monitor Management's compliance on the recommendation.

20. The grant of Representation and Transportation Allowance (RATA) to nine employees of NDC aggregating P1.167 million from October 5, 2021 to December 31, 2022 was not in accordance with the authorization letter dated January 26, 2022 of the Governance Commission for GOCCs (GCG) to NDC, implementing the Compensation and Position Classification System (CPCS) under Executive Order (EO) No. 150, series of 2021, due to absence of GCG's final Job Evaluation (JE) results with career bands of each position which should have been the basis of their entitlement of the subject allowances.

20.1 On January 27, 2022, NDC received from GCG the authorization to implement the CPCS under EO No. 150, since it has fully complied with the requirements. Under the said authorization, NDC may retroactively apply the appropriate salary structure and the allowances, benefits and incentives (ABIs) under CPCS effective October 5, 2021 in accordance with Chapter I (1) of the CPCS Implementing Guidelines.

20.2 However, Paragraph 4 of the authorization letter dated January 26, 2022 implementing the CPCS explicitly provides that:

> ***The final Job Evaluation (JE) results with the career bands of each position shall be provided once the same has been validated.*** *In the meantime, NDC may already adopt the CPCS salary structure as provided above.* ***For allowances, benefits and incentives that require the determination of the career band of the positions entitled thereto, the same shall be granted in accordance with the existing DBM and CSC issuances*** *pursuant to Chapter XI of the CPCS,* ***until such time that the GCG has issued the final JE results of the GOCCs.*** *(Emphasis supplied)*

20.3 On the other hand, the existing issuances on the grant of RATA under Section 62 of the General Provisions of the General Appropriations Act for FY 2022 and Section 5.1 of the National Budget Circular No. 548 dated May 15, 2013, provide as follows:

Representation and Transportation Allowances. Government officials with following ranks and their equivalent, as determined by the DBM or by the GCG for GOCCs/GFIs covered by Republic Act No. 10149, while in the actual performance of their respective functions, are hereby authorized monthly commutable representation and transportation allowances at the rates indicated below, for each type of allowance:

(a) P14,000 for Department Secretaries;
(b) P11,000 for Department Undersecretaries;
(c) P10,000 for Department Assistant Secretaries;
(d) P9,000 for Bureau of Directors and Department Regional Directors;
(e) P8,500 for Assistant Bureau of Directors and Department Assistant Regional Directors, Bureau Regional Directors and Department Service Chiefs;
(f) P7,500 for Assistant Bureau Regional Directors; and
(g) P5,000 for Chief Divisions, identified as such in the Personnel Services Itemization and Plantilla of Personnel

20.4 Verification of records showed that from October 5, 2021 to December 31, 2022, NDC paid RATA to its nine employees amounting to P1.167 million even without the final JE results with the career bands of each position issued by the GCG. Details are presented in Table 15.

Table 15 – Summary of RATA paid to nine employees

	Employee/ Position	**Job Grade**	**RATA Rate**	**Representation Allowance (RA)**		**Transportation Allowance (TA)***		**Total**
				2021	2022	2021	2022	
1	Attorney V	12-8	5,000	15,000	60,000	8,636	27,273	110,909
2	Attorney V**	12-7	5,000	15,000	21,818	14,546	21,818	73,182
3	HR Management Officer V	12-1	5,000	15,000	60,000	6,818	22,273	104,091
4	Administrative Services Officer VI	12-1	5,000	15,000	60,000	15,000	58,864	148,864
5	Accountant V	12-1	5,000	15,000	60,000	15,000	55,682	145,682
6	Treasury Operations Officer VI	12-2	5,000	15,000	60,000	14,091	60,000	149,091
7	Budget Officer V	12-1	5,000	15,000	60,000	15,000	60,000	150,000
8	Corporate Executive Officer II – SPG	12-5	5,000	15,000	60,000	9,318	52,273	136,591
9	Corporate Executive Officer II – AMG	12-4	5,000	15,000	60,000	14,546	59,091	148,637
Total				**135,000**	**501,818**	**112,955**	**417,274**	**1,167,047**

**Deducted TA equivalent to the number of days the employee uses government motor vehicle*
*** Excluded RATA received as OIC, Dept. Manager-Legal Dept. effective May 12, 2022/Resigned effective July 31, 2022*

20.5 Inquiry with the Human Resource Officer disclosed that NDC implemented the CPCS in full and retroactively the salary and ABIs of its employees effective October 5, 2021. Accordingly, with regard to the grant of RATA, NDC implemented CPCS Circular No.

2021-006 dated January 12, 2022, adopting the RATA rates provided thereof which may be granted to officers and employees with the following career bands and job grades under the CPCS, to wit:

Table 16 – Monthly RATA rates under CPCS

Monthly RA or TA	Position Level
11,000	Head of GOCC
10,000	Other Executive Band Positions in the GOCC
8,500	M Band – Job Grade (JG)16
7,500	M Band – JG 14 to 15
5,000	M Band – JG 10 to 13

20.6 NDC granted RATA to its nine employees using the monthly rates provided in the said CPCS Circular as long as the Job Grades of the employees are included in the position level and made its own determination of career bands of the positions entitled thereto without considering the final JE results to be issued by GCG which should have been the basis for the grant and entitlement of RATA under CPCS Circular No. 2021-006. The action undertaken by Management with respect to the grant of RATA to its nine employees was not in accordance with the condition provided under Paragraph 4 of the authorization letter dated January 26, 2022, implementing the CPCS of NDC.

20.7 Inquiry with the concerned officer from GCG disclosed that currently, the Governance Commission has not yet issued the final JE results with the career bands of each position for all GOCCs. Thus, the grant of ABIs, like RATA, which requires determination of career bands of the positions entitled thereto prior to implementation, should be in accordance with the existing DBM and CSC issuances pursuant to Chapter XI of the CPCS, until the GCG has issued the final JE results of the GOCCs.

20.8 The CPCS Circular on the grant of RATA cannot be implemented pending the issuance of the final JE results from the GCG because the grant of the subject allowances needs the determination first of career bands of the positions entitled thereto. NDC should have not granted RATA to its nine employees since under existing DBM issuances they are not entitled to receive the same. Therefore, payment of RATA to them has no legal basis and is tantamount to an irregular expenditure being contrary to the authority issued by the GCG.

20.9 **We recommended that Management:**

a. **Discontinue the payment of RATA to the nine employees who are not entitled to receive the subject allowances until the final JE results with the career bands of each position is issued by the GCG; and**

b. **Require the concerned employees to refund the RATA granted to them from October 2021 up to the date of discontinuance based on the validated and final JE results with the career bands of each position to be issued by the GCG if found/determined that they are not entitled of the same.**

20.10 Management commented that it has reviewed the existing duties and responsibilities of the personnel who were determined to be qualified for the grant of RATA in accordance with CPCS Circular No. 2021-006. NDC personnel under JG-12 hold positions and perform supervisory functions or serve as heads of organizational units.

20.11 Management informed that effective April 2023, payment of RATA for the said employees has been discontinued until the final JE results from GCG are released.

20.12 The Audit Team will monitor Management's compliance with the recommendations.

21. Payments of differentials for the monetization of leave credits of two employees during the period December 1, 2021 to January 27, 2022 in the total amount of P17,354 were contrary to Chapter I (1) of the CPCS Implementing Guidelines of Executive Order (EO) No. 150, series of 2021.

21.1 Chapter I (1) of the CPCS Implementing Guidelines No. 2021-01 dated January 12, 2022, states that:

> ***Retroactive Application –*** *Upon receipt of their respective authorization to adopt the CPCS, GOCCs with substantial compliance to CPCS requirements upon the approval of EO No. 150* ***shall retroactively apply the appropriate salary structures, and the allowances, benefits and incentives under the CPCS effective October 5, 2021****, in accordance with GCG En Banc Resolution No. 2021-02. (Emphasis supplied)*

21.2 Moreover, Chapter II of the same Guidelines enumerated the ABIs which may retroactively apply effective October 5, 2021. The monetization of leave credits did not fall under the enumerated ABIs, but it was part of other entitlements under Chapter IV of the said Guidelines which does not require retroactive application.

21.3 We understand that NDC only received its authorization to implement CPCS on January 27, 2022 and being fully compliant with the CPCS requirement it may retroactively apply only the appropriate salary structure and ABIs under CPCS effective October 5, 2021, pursuant to Chapter I (1) of the CPCS Implementing Guidelines.

21.4 Our audit showed that payments of differential were made on the monetization of leave credits of two employees who monetized portion of their earned leaves during the period December 1, 2021 to January 27, 2022 in the total amount of P17,354. Details are presented in Table 17.

Table 17– Summary of differential for the monetization of leave credits paid to two employees

	Employee/ Position	**Date of Monetization**	**Reference**		**Salary Differential**	**No. of days monetized**	**Amount of Differential**
			Date	**JV No.**	(A)	(B)	(A x B x CF*)
1	HR Management Officer V	Jan.10, 2022	3/25/22	3-21-22	14,684	20	14,153
2	Cashier III	Dec. 1, 2021	3/25/22	3-21-22	3,508	18.935	3,201
Total							**17,354**

**per CSC MC No. 02, s.2016 the constant factor to be used in the formula for computing monetization of leave credits is 0.0481927*

21.5 The CPCS Circular on the grant of RATA cannot be implemented pending the issuance of the final JE results from the GCG because the grant of the subject allowances needs the determination first of career bands of the positions entitled thereto. NDC should have not granted RATA to its nine employees since under existing DBM issuances they are not entitled to receive the same. Therefore, payment of RATA to them has no legal basis and is tantamount to an irregular expenditure being contrary to the authority issued by the GCG.

21.6 **We recommended that Management:**

a. **Require the two employees to refund the differentials of monetization of leave credits during the period December 1, 2021 to January 27, 2022; 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 salaries, allowances, benefits, incentives and other entitlements.**

21.7 Management commented that NDC received the authority to implement the CPCS on January 27, 2022. The employees who monetized their leave credits before that date were already advised and agreed to refund the differential of monetization in installments over a period of one to two years.

21.8 Further, Management commented that they will comply with the provisions of EO No. 150, series of 2021 and authorization letter issued by GCG to NDC.

21.9 We do not concur with the payment terms on the refund of the differential of monetization in installments over a period of one to two years. In similar case involving settlement of audit disallowances on salaries and other personnel benefits by persons liable under COA Resolution No. 2017-021 dated November 3, 2017, for amounts above P10,000 to P20,000, the maximum number of monthly installment payments is 12 months, while for amounts above P1,000 to P10,000, the maximum number of monthly installment payments is six months. The foregoing payment terms may be adopted by Management.

21.10 During the exit conference, Management commented that it will deduct the refund of differential of monetization pursuant to COA Resolution No. 2017-021 dated November 3, 2017.

21.11 The Audit Team will monitor Management's compliance with the refund of the differential of monetization in installments.

22. Payments of overtime services amounting to P267,678 were not in compliance with the relevant provisions of Civil Service Commission (CSC) – Department of Budget and Management (DBM) Joint Circular (JC) No. 1 dated November 25, 2015, Section 5.10 of Commission on Audit (COA) Circular No. 2012-001 dated June 14, 2012 and Section 15, Part II of Executive Order (EO) No. 518 dated January 23, 1979, hence, regularity and propriety of the expenses incurred cannot be ascertained.

22.1 CSC-DBM Joint Circular (JC) No. 1 dated November 25, 2015 was issued to prescribe policies and guidelines on the rendition of overtime services and the corresponding remuneration, either through compensatory time-off (CTO) or overtime pay for government employees. Section 3 of the JC provides that:

General Policies on Overtime Services

3.1 The rendition of overtime services shall be authorized ***only when extremely necessary****, such as when a particular work or activity cannot be completed within the regular work hours and that noncompletion of the same will: a) cause financial loss to the government or its instrumentalities; b) embarrass the government due to its inability to meet its commitments; or c) negate the purposes for which the work or activity was conceived.*

3.2 As a ***general rule, the remuneration for overtime services shall be through CTO****, in accordance with the guidelines under the CSC-DBM Joint Circulars No. 2, s. 2004 and No. 2-A. s. 2005.*

3.3 The payment in cash of overtime services through Overtime Pay ***may be authorized only in exceptional cases when the application of CTO for all overtime hours would adversely affect the operations of the agency****. (Emphasis supplied)*

22.2 Review of payments for overtime services amounting to P267,678 for CY 2022 revealed the following deficiencies/lapses, to wit:

a. Overtime services rendered were immediately remunerated thru cash amounting to P226,468 rather than thru CTO, without justification that the application of CTO for all overtime hours would adversely affect the operations of NDC, contrary to Section 3.3 of the aforementioned JC.

22.3 The Audit Team noted that an employee requesting for authority/approval to render overtime is given two options on the kind of remuneration he/she desired to receive, whether with pay (payment in cash) or without pay (availment of CTO). From the start, an employee requesting authority to render overtime will choose from the two NDC-customized forms (Overtime Authorization with Pay or without Pay). Accordingly, the basis for payment of overtime services was CSC-DBM JC No. 1 as cited in NDC Inter-Office Memorandum dated April 10, 2017.

22.4 While it is true that CSC-DBM JC No. 1 provides for payment in cash for overtime services rendered, it has condition/requirement that needs to be satisfied/complied with first before making such payment. In the customized form (Overtime Authorization with Pay) used by NDC, there is no provision justifying why payment in cash for overtime services was authorized and resorted into. The form used by NDC merely provides authorization for employee to render overtime with pay. Thus, the Audit Team cannot find any basis why payment in cash for overtime services was authorized instead of availment of CTO, based on the supporting documents attached to the journal vouchers.

22.5 Management should be reminded that as a general rule, remuneration for overtime services shall be thru CTO and payment in cash may be authorized only in exceptional cases when application of CTO for all overtime hours would adversely affect the operations of the agency pursuant to Sections 3.2 and 3.3 of the subject JC.

22.6 It is our view that Management should assess the propriety of the chosen mode of remuneration for overtime service of the employees and provide reason/justification in the form if payment in cash is authorized and resorted into.

b. Activities or work accomplishments of some employees who claimed overtime pay did not necessarily warrant rendition of overtime services as enumerated in Section 4 of CSC-DBM JC No. 1 dated November 25, 2015.

22.7 Section 4 of CSC-DBM JC No. 1 dated November 25, 2015, provides that:

The priority activities that may warrant rendition of necessary overtime services may include the following:

4.1 Implementation of special or priority programs and projects embodied in Presidential directives with specific dates of completion;
4.2 Completion of infrastructure and other projects with set deadlines when due to unforeseen events the deadline cannot be met without resorting to overtime work;
4.3 Essential public services during emergency or critical situations that would require immediate or quick response;
4.4 Relief, rehabilitation, reconstruction, and other work or services during calamities and disasters;
4.5 Seasonal work, such as but not limited to, preparation of budgets and annual reports, in order to meet scheduled deadlines;
4.6 Preparation of financial and accountability reports required by oversight agencies like Congress of the Philippines, Office of the President, Commission on Audit, Department of Budget and Management and National Economic Development Authority;
4.7 Services rendered by drivers and other immediate staff of officials when they are required to keep the same working hours as these officials; and
4.8 Such other activities as are need to meet performance targets or deliver services to the public as may be determined by the agency head.

22.8 Our audit showed that the overtime work accomplishments of some employees were part of their regular job activities or part of their job description and not of urgent nature which requires completion within a specified time. The works accomplished can also be undertaken during the regular office hours. Moreover, some work accomplishments of employees who claimed overtime pay did not fall in the enumerated priority activities which necessitate rendition of overtime services as provided in Section 4 of CSC-DBM JC No. 1.

22.9 Additionally, we noted in the overtime authorization form that the time period indicated was the exact actual time in/out shown in the daily time records (DTRs) of the employees who rendered overtime services. It appears that the authority to render overtime services was granted after the rendition of the same. Also, the works to be done that necessitate rendition of overtime service were also the actual work accomplishments and did not specifically state the quantified accomplishments.

22.10 Further, as can be gleaned from the customized form, there is only one column for works to be accomplished, which should have been made upon request for authority to render overtime, and the works accomplished, which should have been prepared after rendering overtime services. These activities should have been segregated to facilitate review and monitoring of the works accomplished versus the works to be accomplished provided in the request for authority to render overtime services.

22.11 Based on the above circumstances, the necessity of the rendition of overtime services was not clearly provided in the authorization of overtime.

c. Incomplete supporting documents for payments of overtime services contrary to Section 5.10 of COA Circular No. 2012-001 dated June 14, 2012.

22.12 Section 5.10 of COA Circular No. 2012-001 dated June 14, 2012 provides a list of documentary requirements for payment of overtime services, as follows:

- Overtime authority stating the necessity and urgency of the work to be done, and the duration of overtime work;
- Overtime work program;
- Quantified overtime accomplishment duly signed by the employee and supervisor; and
- Certificate of service or duly approved DTR.

22.13 Verification of the supporting documents for payments of rendered overtime services amounting to P267,678 revealed that documents, such as overtime work program and quantified overtime accomplishment duly signed by the employee and supervisor, were not prepared nor attached to the journal vouchers.

22.14 The absence of these significant documents casts doubts on the propriety and regularity of the payments of overtime services rendered.

d. Report on Overtime Services with Pay for FY 2022 was not prepared and submitted to DBM, copy furnished the CSC, as required under Section 12 of CSC-DBM JC No. 1 dated November 25, 2015.

22.15 Section 12 of CSC-DBM JC No. 1 dated November 25, 2015, provides that:

Each agency shall submit to the DBM's Budget and Management Bureau or Regional Office concerned, copy furnished the CSC, the ***"Report on Overtime Services with Pay"*** *using the template in Annex A* ***on or before March 31 of every year****. (Emphasis supplied)*

22.16 Inquiry with the Human Resource Officer disclosed that NDC's Report on Overtime Services with Pay for FY 2022 was not prepared and submitted to DBM, copy furnished the CSC. This practice is not in accordance with the above-mentioned Section of JC No. 1 since NDC has been paying overtime services of some of its employees. Thus, DBM and CSC were not informed of this valuable information which would help/facilitate in the discharge of their oversight functions over NDC.

22.17 **We recommended that Management:**

a. Submit justification for granting/approving payments of overtime services in lieu of CTO;

b. **Revise/modify the forms used in authorizing payment of overtime services to ensure that the requirement/condition stated in Section 3.3 of CSC-DBM JC No. 1 is complied with;**

c. **Ensure that approval/authority to render overtime services is granted only for activities which are necessary and in accordance with the priority activities provided in Section 4 of CSC-DBM JC No. 1;**

d. **Ensure that all overtime payments have complete supporting documents in accordance with Section 5.10 of COA Circular No. 2012-001 dated June 14, 2012;**

e. **Instruct the Department Head of FAD to submit a Report on Overtime Services with Pay for FY 2022 and every year thereafter to DBM, copy furnished the CSC, within the prescribed period pursuant to Section 12 of CSC-DBM JC No. 1; and**

f. **Henceforth, establish sound internal control in adherence to the policies and guidelines set forth in CSC-DBM JC No. 1 to ensure that rendition and payment of overtime services are proper and valid.**

22.18 Management commented that overtime services rendered were granted/approved to meet the deadlines set by regulatory agencies, prepare board meeting materials and complete priority assignments required by Management and other stakeholders. Considering NDC's limited manpower, it is more practical for NDC to pay overtime instead of CTO to ensure the availability of staff in the office.

22.19 Management informed that the forms used in authorizing payment of overtime services have been revised. These revised forms now include justification for rendering overtime, individual statement of overtime workplans and program and individual statement of overtime work accomplishments.

22.20 Management also informed that the Report on Overtime Services with Pay for FY 2022 was submitted to DBM and a copy was furnished to CSC on May 11, 2023.

22.21 The Audit Team will monitor Management's compliance with policies and guidelines set forth in CSC-DBM JC No. 1 on payment of overtime services.

23. NDC's failure to fill up positions in its Internal Audit Office (IAO) raised significant concerns about the effectiveness of its internal control system and the overall governance framework of the Corporation which is not in accordance with the provisions of the Department of Budget and Management (DBM) Circular Letter (CL) No. 2008-5 dated April 14, 2008.

23.1 DBM CL No. 2008-5 dated April 14, 2008 provides guidelines to be followed by the different Departments/Agencies/GOCCs/GFIs of the Executive Branch in the organization of an Internal Audit Service/Unit (IAS/IAU) and Management Division/Unit (MD/MU) for purposes of strengthening their internal control systems, improving existing systems and procedures and promoting transparency and accountability in various aspects of the operations of government.

23.2 Based on NDC's DBM-approved organization structure dated May 29, 2003, the IAO was created under the Office of the General Manager (GM), to ensure the orderly, efficient, and effective conduct of the company's business and operations. The IAO is tasked with monitoring, evaluating, and appraising the company's management control system through systems and policies audits of the various NDC units and its subsidiaries. Its primary objectives are to safeguard the company's investments, promote operational efficiency and ensure compliance with prescribed policies, rules and regulations.

23.3 Since 2003, NDC has been unsuccessful in filling up positions in the IAO. In February 2019, it managed to fill only one position for the IAO but the employee resigned after three months. Subsequently, NDC hired a replacement in October 2019 but the said employee transferred to another government agency in March 2022. Since June 2022, NDC has been posting vacancies for two positions (Department Manager III and Management and Audit Officer V) in the IAO, but still, it is unsuccessful in filling up of the same.

23.4 Inquiry with the Human Resource Officer disclosed that applicants for the Department Manager III position for IAO had already undergone interviews and evaluations by NDC's Human Resource Merit Promotion and Selection Board in the first quarter of 2023. The applications for this position will be forwarded for endorsement to the General Manager in the fourth week of May 2023. On the other hand, one applicant has expressed intention to apply for the Management and Audit Officer V position.

23.5 Meanwhile, in the course of our audit, we have observed lapses/weaknesses in the internal control system of NDC which could have been avoided had there been internal auditing conducted. In December 2022, we issued an Audit Observation Memorandum (AOM) on the delayed issuance of official receipts (ORs) for collections made during the day. The Collecting Officer (CO) follows a practice of preparing and issuing ORs in bulk for all collections during the day, resulting in collections being deposited in NDC's government depository bank without the required ORs. This practice of delayed preparation and issuance of ORs is susceptible to fraud. It is essential for the CO to promptly issue an OR upon receipt of payment as an acknowledgment of the transaction. This observation has been duly noted and Management has assured compliance with the recommendations.

23.6 Moreover, review of records revealed that on July 23, 2019, NDC received a Formal Assessment Notice (FAN) from the Bureau of Internal Revenue (BIR) regarding deficiency taxes for taxable year 2015 totaling P172.943 million, inclusive of interest. In response, NDC submitted a request for reinvestigation, seeking the modification or cancellation of the FAN. However, on March 2, 2022, the BIR issued a Final Decision on Disputed Assessment (FDDA). On March 31, 2022, NDC requested for reconsideration of the FDDA from the Commissioner of the BIR, stating that the alleged deficiency taxes for the taxable year 2015 are without basis in fact and law. As of now, no response has been received on the aforementioned request.

23.7 Considering the above circumstances, it is evident that the current practice of bulk issuance of ORs by the CO for all collections undermines the effectiveness of internal control system. Additionally, with regard to the 2015 tax assessment by the BIR, it was noted that there were no existing personnel in the IAO during that year who could assist and ensure NDC's compliance with applicable tax laws, regulations and reporting requirements.

23.8 The absence of personnel in the IAO raises significant concerns on the effectiveness of internal control systems and the overall governance framework of NDC. The Internal Audit function plays a critical role in providing independent and objective assurance to management and stakeholders by evaluating the adequacy and effectiveness of internal controls, risk management processes and compliance with applicable laws and regulations.

23.9 Without an internal audit function, the organization may lack the necessary oversight and monitoring mechanisms to identify and address potential weaknesses in internal controls, operational inefficiencies and areas of non-compliance.

23.10 **We recommended that Management:**

- **a. Fast track the hiring process for Department Manager III position for IAO; and**

- **b. Exert persistent and intensified efforts to fill the remaining positions in the IAO according to NDC's requirements, pursuant to DBM Circular Letter No. 2008-5 dated April 14, 2008 to strengthen its internal control system and the overall governance framework.**

23.11 Management informed that a new Internal Audit Manager was appointed and will assume his duties in July 2023.

23.12 Management commented that NDC exerted efforts to fill up the required positions in IAO. Unfortunately, previous applicants to IAO positions did not meet the qualification and experience required by NDC.

23.13 Moreover, the previous IAO Officer transferred to another agency just before the election ban, followed by the resignation of NDC's General Manager.

23.14 Thus, Management opted to wait for the appointment of a new General Manager to give him a free hand to choose the personnel who will directly report to him. In addition, the then Officer-in Charge did not have the authority to appoint a regular employee, as provided by law.

23.15 Accordingly, Management commented that application for Management and Audit Officer V (MAO V) is already being processed.

23.16 Management also addressed the delayed issuance of official receipts, informing that the Collecting Officer merely waited for the submission of monthly tax certificates to ensure that correct journal entries were recorded in NDC's books. Further, the delayed issuance of ORs to post-dated checks could not have been susceptible to fraud as payments were not even in cash. Nonetheless, NDC has already resolved the issue by requiring the submission of withholding tax certificates together with the lessees post-dated checks.

23.17 Finally, Management commented on the issuance of 2015 Tax Assessment by the BIR, clarifying that it was not due to a lack of IAO personnel. Management informed that

NDC filed a request for reconsideration regarding the Disputed Assessment on February 24, 2022, asserting that the BIR assessment lacks factual and legal basis.

23.18 We would like to emphasize that collections, whether in cash or in check, should be issued with corresponding ORs upon receipt. Failure to do so is a weakness of internal control on collections. Our verification disclosed that collections of the CO in this case, were not all in checks, but also involved cash. This breach of control could have been mitigated had there been an internal auditing conducted.

24. Copies of contracts, Purchase and Job Orders and their supporting documents, with contract amount aggregating to P217.833 million were not submitted to the Audit Team within five working days from their execution or issuance as prescribed under Sections 3.1 and 3.2 of COA Circular No. 2009-001 dated February 12, 2009, thus, precluding the Audit Team in conducting timely review and evaluation thereof.

24.1 Section 2.1 of COA Circular No. 2009-001 dated February 12, 2009 re: *Restatement with amendment of COA Circular 87-278 and COA Memorandum 2005-027 re: submission of copy of government contracts, purchase orders and their supporting documents to the Commission on Audit,* provides that the Circular shall cover all contracts, purchase orders and the like, entered by any government agency irrespective of amount involved.

24.2 Moreover, Sections 3.1 and 3.2 of COA Circular No. 2009-001 dated February 12, 2009 states that:

Contracts

Within five (5) working days from the execution of a contract by the government or any of its subdivisions, agencies or instrumentalities, including government-owned and controlled corporations and their subsidiaries, a copy of said contract and each of all the documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned. *In case of agencies audited on an engagement basis, submission of a copy of the contract and its supporting documents shall be to the Auditor of the mother agency or parent company, as the case may be.*

Xxx

Purchase Orders

A copy of any purchase order irrespective of amount, and each and every supporting document, shall, within five (5) working days from issuance thereof, be submitted to the Auditor concerned. *Within the same period, the Auditor shall review and point out to management defects and/or deficiencies, if any, in the same manner provided in the second and third sentences of item 3.1.4 hereof.* (Emphasis supplied)

24.3 Review of all perfected contracts executed and entered by and between NDC and the contracting parties disclosed that the following contracts with contract amount aggregating to P216.014 million were submitted to the Audit Team beyond the prescribed five working days (WDs) from date of execution. The delay ranges from one to 76 WDs which is not in accordance with the aforementioned COA Circular.

24.4 Similarly, copies of 29 Purchase Orders (POs) and ten Job Orders (JOs) issued to various suppliers/contractors with an aggregate amount of P1.183 million and P0.635 million, respectively, were submitted to the Audit Team beyond the prescribed five WDs from issuance thereof. The delay ranges from one to 13 WDs.

24.5 Compliance with the prescribed period of submission of copies of contracts, Pos and JOs facilitates the systematic, efficient and effective review process being undertaken by the Audit Team. It also gives the Audit Team ample time to call the attention of Management for corrective measures, in case defects and deficiencies are discovered in the submitted contracts, POs and JOs. Additionally, these documents provide essential information that will aid in verifying the propriety of transactions.

24.6 The delayed submission of contracts, POs and JOs, together with their supporting documents, affects the timely auditorial review and technical evaluation of the same, if warranted. Consequently, discovering defects and deficiencies long after the contract has been implemented may no longer be remedied and place NDC at a disadvantageous position.

24.7 **We recommended that Management:**

a. Provide an explanation/justification why some of the copies of approved contracts, JOs and POs, together with their supporting documents, were submitted to the Audit Team beyond the prescribed five WDs from execution or issuance thereof; and

b. Henceforth, furnish the Audit Team copies of approved contracts, POs and JOs, including their supporting documents, within five WDs from execution or issuance thereof pursuant to Sections 3.1 and 3.2 of COA Circular No. 2009-001 dated February 12, 2009.

24.8 Management commented that submission to COA of the contracts, POs and JOs within five WDs from their execution is being implemented. However, for those that were submitted beyond five WDs, usual reasons for delay may be attributed to unintentional oversight and ensuring that the complete set of the required supporting documents were photocopied and attached to the yellow copy of the JO/PO.

24.9 Further, Management provided detailed justifications on the delay of submission of lease contracts which are beyond the control of NDC. Factors such as geographical considerations and logistic challenges faced by the parties involved in the lease contract, as well as the transmittal process of notarized copies through courier services, have contributed to the delay.

24.10 The Audit Team will monitor Management's compliance on submission of approved contracts, POs and JOs, including their supporting documents, within five WDs from execution or issuance.

25. Official receipts were not immediately issued upon receipt of cash and/or check collections by the accountable officer (AO) contrary to Section 68 (1) of Presidential Decree (PD) No. 1445.

25.1 Section 68 (1) of PD No. 1445 states that:

Issuance of official receipt.

(1) No payment of any nature shall be received by a collecting officer without immediately issuing an official receipt in acknowledgement thereof. *The receipt may be in the form of postage, internal revenue or documentary stamps and the like, officially numbered receipts, subject to proper custody, accountability, and audit.*

25.2 During the cash count the AO presented the used and unused official receipts (ORs), cash and check deposit slips. Upon checking of the ORs and deposit slips, it was noted that collections from the previous day and the day of count were not issued with an OR.

25.3 The AO explained that she waited for BIR withholding tax forms from Accounting Unit before she prepares and issues the OR to the lessees or payors. The AO practices one-time preparation/issuance of ORs for all collections during the day, thereby, collections deposited were not supported with the required ORs at the time of deposit.

25.4 The practice of late preparation of OR is susceptible to fraud, once payment was received by the AO issuance of an OR should be made in acknowledge thereof.

25.5 Sound Internal control for receipt/collections and deposits requires control activities among others, such as: a) receiving cash/check from payor representing collection based on the order of payment prepared by the Accounting Unit, b) issuing OR to acknowledge receipt of cash/check, c) recording collections in the Cash Receipts Record, d) deposit collections through Authorized Government Depository Bank (AGDB) and e) preparing Report of Collections and Deposits based on duplicate copies of ORs on file and validated deposit slips from the AGDB.

25.6 **We recommended that Management:**

a. Require the AO to immediately issue OR upon receipt of cash and/or check collections; and

b. Instruct the AO to observe the proper procedure for collections and deposits.

25.7 Management informed that lessees issue postdated checks (PDCs) to NDC upon signing or renewing the contract. These checks are kept under the custody of the CO and deposited in the bank on the date specified on the check. However, the corresponding tax certificates were not submitted by the lessees at the same time they issued the PDCs. As a result, the CO waited for the submission of the withholding tax certificates to ensure that the correct journal entries are entered in NDC's books of account. The CO issued the OR only upon receiving the withholding tax certificates and the order of payment from the Accounting Unit.

25.8 The Audit Team will monitor Management’s compliance with the recommendations.

26. The Gender and Development (GAD) Plan and Budget (GPB) for CY 2022 of NDC was not endorsed by the Philippine Commission on Women (PCW) due to non-compliance with the review comments made by the latter.

26.1 Section 8.6 of PCW-National Economic and Development Authority (NEDA)-Department of Budget and Management (DBM) Joint Circular (JC) No. 2012-01 provides that, PCW shall endorse agency GPBs only under the following conditions:

i. if they are reviewed by the mother or central office;
ii. if the requested revisions or additional information in answer to questions about the GPB are accepted by PCW within the prescribed deadlines; and
iii. if they are accompanied by the GAD Accomplishment Report (AR).

26.2 Moreover, Section 1.2.5 of PCW Memorandum Circular No. 2021-04 dated August 24, 2021 on the Preparation and Online Submission of FY 2022 GPB, states that:

1.2.5.1 PCW shall endorse the FY 2022 GPB if: (1) the minimum five percent (5%) GAD Budget requirement has been met, and (2) the entries in the GPB are compliant with the provisions of the MCW and relevant guidelines on GAD Planning and Budgeting.

1.2.5.2 In case the GPB is not endorsed by PCW after its review due to partial/non-compliance with the conditions provided in Section 1.2.5.1, the agency may request for reconsideration to resubmit its GPB for review up to two times only. ***If there are still deficiencies after these two rounds of review****, then the* ***GPB will finally be deemed unendorsed.*** *(Emphasis supplied)*

26.3 Review of the approved annual GPB submitted by NDC to PCW showed that the Corporation allocated a total of P112.690 million or eight per cent of its approved operating budget of P1.399 billion. However, it was not endorsed by PCW due to non-compliance with the conditions provided under Section 8.6 of the aforementioned Joint Circular.

26.4 Records showed that the GAD Focal Point System (GFPS) – Technical Working Group (TWG) initially submitted to PCW the GPB of NDC for CY 2022 on November 15, 2021. Subsequently, PCW returned the reviewed GPB to the GFPS of NDC on December 6, 2021, along with comments and recommendations for revision. The reasons for non-endorsement were similar to those of the previous year, such as: a) inclusion of provisions for livelihood and income opportunities for employees under the organization-focused activities; and b) inclusion of employee salaries and livelihood programs intended for employees, which are not allowed in the GPB.

26.5 Further, PCW suggested to GFPS that there were existing projects of NDC where GAD could potentially be integrated and subjected to gender analysis using the Harmonized Gender and Development Guidelines (HGDG) tool. Assessing major projects using the HGDG tool enables the agency to identify strengths and areas for improvement, gradually increasing the gender-responsiveness of the project.

26.6 Finally, on April 1, 2022, the GFPS submitted the revised GPB, but the same was not endorsed by PCW.

26.7 The review and endorsement of the GPB by PCW are necessary since this will serve as guidance for the GFPS in effectively addressing the identified gender issues within NDC.

26.8 The non-endorsement of NDC's GPB for CY 2022 by PCW indicates non-adherence to gender-responsive guidelines and policies during its preparation. These pertain specifically to the identification of gender issues and the extent to which the programs, activities, and projects (PAPs) outlined in the GPB effectively addressed these concerns. Furthermore, the absence of a GAD budget allocation within NDC's major projects hinders the improvement of gender responsiveness in its GAD budget and programs.

26.9 **We reiterated our prior year's recommendations with modification that Management:**

a. **Instruct the GFPS-TWG to prepare GPB in accordance with Section 8.6 of PCW-NEDA-DBM JC No. 2012-01 and comply with the recommendations and comments made by PCW to ensure endorsement of the same; and**

b. **Prioritize and strengthen the capacity building of GFPS members thru conduct or attendance in training sessions to enable them to effectively plan the GPB and ensure that planned PAPs are designed to address GAD issues.**

26.10 Management informed that a GAD expert was invited from Philippine Commission on Women (PCW) to conduct Training on Basic GAD and Gender Analysis, GAD Planning and Budgeting, Gender Mainstreaming Evaluation Framework, Harmonized GAD Guidelines and GAD Budget Attribution including Feasibility Studies on the Gender Issues on October 28, November 10 & 11, 2022, to help improve the capacity and technical knowledge of the GFPS members in the planning and implementation of NDCs GAD Plan and Budget.

27. The allocated amount for GAD PAPs in CY 2022 was not fully utilized, with an unused balance of P107.520 million or 95.41 per cent at year-end, resulting to non-implementation of GAD-related PAPs and attributed programs which may have impacted the agency's efficiency in addressing gender-related issues.

27.1 Audit of the utilization of GAD funds revealed that out of P 112.690 million of CY 2022 GAD budget for client and organizational focused and attributed GAD PAPs, only 4.59 per cent or P5.170 million was utilized during the year, as presented in Table 18.

Table 18 – Details of the utilization of GAD fund

PAPs	Budget		Utilized		Over (Under) Utilization	
	No. of Activities	Amount	No. of Activities	Amount	Amount	%
Client Focused	1	100,000	1	950	(99,050)	0.00%
Organizational Focused	4	380,000	3	199,528	(180,472)	0.18%
Attributed Program	2	112,209,680	1	4,969,402	(107,240,278)	4.41%
	7	**112,689,680**	**5**	**5,169,880**	**(107,519,800)**	**4.59%**

27.2 Review of the GAD AR for CY 2022 revealed that only five out of seven PAPs and attributed program included in the CY 2022 GPB were implemented by NDC.

27.3 As presented above, NDC implemented one GAD client-focused activity, expending P950, which pertains to the cost of tarpaulin for the campaign on ending Violence Against Women and Children (VAWC). However, the mere act of hanging the tarpaulin may be considered insufficient to address the lack of awareness and understanding among stakeholders regarding ending VAWC and promoting GAD.

27.4 On the other hand, P199,528 was utilized for the organizational-focused activities or 0.18 per cent of the P112.690 million allocated budget. Out of the four planned activities, three were successfully implemented. Unfortunately, the conduct of capacity building on participatory gender audit was not carried out as initially planned.

27.5 Moreover, we noted that a significant portion of the unutilized budget is attributed to the GFPS's inability to allocate the costs of its major programs/projects as part of the budget utilization for the attributed programs using the HGDG tool. Additionally, out of the two planned activities for the attributed program, one was successfully implemented which pertains to the COVID-19 Response Program. However, the budget for such program was overutilized by P2.760 million.

27.6 The underutilization of GAD budget indicated that Management may not have totally addressed the gender issues included in the CY 2022 GPB, thereby depriving the intended beneficiaries of the benefits that may be derived from GAD PAPs conducted.

27.7 **We reiterated our previous years' recommendation that Management maximize the utilization of the GAD funds and establish an effective monitoring mechanism to ensure proper implementation of identified GAD PAPs in order to attain the objectives for which funds were allocated.**

27.8 **Further, provide justification why the budget for the COVID-19 Response Program was overutilized by P2.760 million.**

27.9 Management commented that the budget for COVID-19 Response Program was overutilized by P2.760 million due to the attribution of various expenses to GAD, such as COVID Kit, vaccines, medicines, disinfection/sanitation, meals, miscellaneous and honorarium of resource speakers for the Wellness Trainings, RT-PCR testing for NDC personnel, purchase of surgical masks, communication expenses, toll fees, fuel expenses and overtime of drivers.

28. The submitted GAD Accomplishment Report (AR) for CY 2022 was not fully supported with necessary documents and has not yet been reviewed by PCW, thus, precluding the Audit Team in verifying and facilitating a thorough audit of the GAD accomplishments.

28.1 The GAD AR should be submitted to PCW with necessary supporting documents required under Section 10.4 of PCW-NEDA-DBM JC No. 2012-01, which states that:

> *The annual GAD AR shall be accompanied by the following: (1) brief summary of the reported program or project; (2) copies of reported policy issuances; (3) results of*

HGDG tests, if any; and (4) actions taken by the agency on the COA audit findings and recommendations, if any.

28.2 Inquiry with the NDC's Human Resource staff revealed that NDC submitted the second GAD AR to PCW through the Gender Mainstreaming Monitoring System on May 15, 2023 and it is currently under review by PCW. However, such submission was not supported with the results of the HGDG tests for the attributed program and the actions taken by NDC on the COA audit findings and recommendations, contrary to the above-mentioned provisions of the Joint Circular.

28.3 Additionally, Section 3.1 of PCW Memorandum Circular No. 2022-07 dated December 6, 2022, states that:

Agencies shall print the returned GAD ARs with PCW's final observations and remarks and submit the signed GAD ARs to the PCW and to the concerned agency's COA Audit Team.

28.4 Since the GAD AR is still under review by PCW, and the submitted GAD AR to the Audit Team does not include PCW's final observations and remarks, the Audit Team was unable to fully verify and conduct a thorough audit of the GAD accomplishments.

28.5 **We recommended and Management agreed to instruct the GFPS to submit the required supporting documents for GAD AR as enumerated in Section 10.4 of PCW-NEDA-DBM JC No. 2012-01 to PCW and submit thereafter the PCW-reviewed GAD AR to the COA Audit Team to facilitate proper evaluation and verification of the GAD accomplishments.**

29. 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.

29.1 COA Circular No. 2021-008 dated September 6, 2021 is issued requiring all government agencies to create/assign a RC for the GFPS to facilitate 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.

29.2 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.

29.3 During the audit of the GAD AR, it was noted that the reported actual expenses amounted to P5.170 million. However, the recorded GAD expenses per SL were only P511,856, hence, a discrepancy of P4.658 million. Despite NDC having a designated SL for GAD-related expenses, programs, activities and projects, the total amount indicated in the SL did not match with the actual amount of expenses reported in the GAD AR.

29.4 The discrepancy of the total actual expenses reported in the GAD AR and recorded in the SL for GAD-related expenses/programs/activities/projects could have been mitigated if NDC had 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.

29.5 **We recommended and Management agreed to:**

a. **Adhere to the requirements of COA Circular No. 2021-008 dated September 6, 2021 by creating/assigning Responsibility Center for the GFPS to ensure proper accounting, monitoring, and reporting of GAD expenses and other GAD-related financial transactions; and**

b. **Henceforth, ensure that the reported GAD expenses in the GAD AR matched/reconciled with the SL for GAD-related expenses, programs, activities and projects.**

COMPLIANCE WITH RULES ON GOVERNMENT MANDATORY DEDUCTIONS AND REMITTANCES

30. For CY 2022, the appropriate premium contributions and loan amortizations were deducted from salaries of the employees of NDC. Employees' share 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 2022 are as follows:

Table 19 – GSIS, PHIC and HDMF amortizations and remittances

Particulars	Amount
GSIS contribution and loan amortization	6,539,613
PHIC contribution	757,912
HDMF contribution and loan amortization	346,676
Total	**7,644,201**

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

31. As of December 31, 2022, 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 20 – Summary of Audit Suspensions, Disallowances and Charges

	Balances as of January 1, 2022	Issued during the year	Settled during the year	Balances as of December 31, 2022
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**

31.1 The details of the NDs are shown below:

Table 21 – Details of Notice of Disallowances

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 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

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 55 audit recommendations embodied in the Calendar Year (CY) 2021 and prior years' Annual Audit Reports (AARs), 38 were fully implemented/reconsidered and the remaining 17 were not implemented are reiterated in Part II of this Report. Details are presented below:

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2021 AAR Observation No. 1, page 62	Investment properties amounting to P162.940 million with an aggregate area of 37,587 square meters remained not titled in the name of NDC thereby negating management's assertion on its rights and obligations pertaining thereto.	Expedite titling of these untitled land in NDC's name in order to establish rights and ownership over said properties.	Not implemented The observation is reiterated in Part II, No. 1 of this report.
2021 AAR Observation No. 2, page 64	The completeness and existence of Property and Equipment (PE) account with carrying amount of P53.041 million as of December 31, 2021 could not be ascertained due to: a) partial inventory count and non-reconciliation of inventory results with accounting records and b) inclusion of unserviceable PE costing P498.019 million which remained undisposed and still recorded in the books of accounts.	a. Require the Finance and Administrative Department to conduct complete periodic physical count of all property and equipment of NDC, reconcile the PE balances per count and per books and submit the report to the Auditor not later than January 31 of the following year; b. Instruct the Disposal Committee to expedite the preparation of Inventory and Inspection Report of Unserviceable Property and report the identified unserviceable properties, thereafter undertake immediate disposal of idle and unserviceable property to avoid further deterioration and	All the four recommendations were implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		devaluation of the same; c. Direct the Accounting Department to derecognize unserviceable property and related accounts in the books of accounts upon disposal or when no future economic benefits are expected from its use or disposal in accordance with paragraph 67 of Philippine Accounting Standard 16; and d. Henceforth, address the deficiencies noted in the conduct of physical inventory count.	
2021 AAR Observation No. 3, page 68	The validity of Trust Liabilities account amounting to P75.633 million is doubtful due to: a) continuous recognition of rental security deposits of previous lessees amounting to P18.206 million; and b) unclaimed bid and performance security deposits for two years and more amounting to P9.602 million.	a. Review and evaluate lease contracts and related documents pertaining to the lessees' account to ensure that only those existing and valid security deposits payable are presented in the financial statements as of December 31, 2021; b. Determine the propriety of the recorded rental security deposits and if found in order, inform the previous lessees to claim their security deposits and prepare the necessary adjustment in the books, if warranted;	All the six recommendations were implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		c. Henceforth, instruct the Accounting Department in coordination with Asset Management Group to conduct periodic monitoring of the status of expired lease contracts relative to the refund of security deposits of various lessees; d. Examine and assess the recorded bid and performance security deposits of bidders/prospective buyers of disposable assets and suppliers of goods and services to ascertain whether the purpose of such security deposits have been fulfilled or not and send letter to the concerned bidder/supplier/contract or informing of refunds due them; e. Prepare the necessary adjusting entries to revert back the dormant payables to Retained Earnings; and f. Henceforth, conduct periodic monitoring of the status of settlement of the account of bidders and suppliers/contractors applying the bid deposit against payments and refund of the performance security deposit after the fulfillment of contract.	

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2021 AAR Observation No. 4, page 70	NDC cannot enforce its right to demand and collect the interest charges amounting to P14.033 million from the Philippine Mining Development Corporation (PMDC) pertaining to its long outstanding loans amounting to P70.693 million due to differences in interpretation of the provisions of the original and loan restructuring agreement.	a. Require the Legal Department to fast track the settlement of the arbitration case filed by PMDC in order to continuously collect the loan amortization due from PMDC; and b. Reconcile the discrepancy and adjust the books of accounts, if warranted, to arrive at the correct balances of Loans and Interest Receivable in the financial statements once the arbitration case has been settled.	Recommendation (a) was implemented while (b) was reconsidered.
2021 AAR Observation No. 5, page 73	The balance of Rental Receivable account amounting to P46.388 million could not be ascertained due to variances in the total amount of P9.171 million between the book and confirmed balances of the accounts with various lessees.	a. Reconcile the lessee's accounts with variances per confirmation as against the balance per books of accounts: a.1 Coordinate with the representatives of Board of Investments and Petron Corporation to discuss the settlement of their outstanding obligations; a.2 Follow-up and coordinate closely with the representatives of Manila Pest Control, Panay Railways, Inc. and Spectrum Engineering & Consultancy to determine and establish the proprietary of their	Both recommendations were implemented. .

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		long outstanding accounts with NDC; and a.3 Assess and reconcile the variances from the records of Lepanto Mining Corporation, Cleanaway Philippines Inc., Mr. Naguit and Eac.Net Internet Shop and adjust the books of accounts if necessary; and b. Demand payment of valid receivables determined after reconciliation and/or adjust accounting records, if warranted.	
2021 AAR Observation No. 6, page 75	Compensation Price on the negotiated sale of 13,297.97 square meters (sq. m.) portion of Pandacan property, subject of the Right-of-Way (ROW) of the Metro Manila Skyway Stage 3 Project (MMSS3) amounting P757.984 million was not yet finalized after the lapse of more than three years from the undertaking of the Road ROW acquisition by the Department of Public Works and Highways (DPWH) in February 2018 and remains outstanding after completion of the project in January 2021 resulting	a. Coordinate with Toll Regulatory Board and other concerned government agencies, to expedite the resolution of the issue on the ROW acquisition of the Pandacan property and the corresponding compensation thereof; b. Demand inclusion of Legal Interest in the computation of compensation price for the property covered in ROW acquisition for MMSS3 project pursuant to Section 5 of Republic Act (RA) No. 10752 as implemented by Section 6.11 of its	All the three recommendations were not implemented. The observation is reiterated in Part II, No. 8 of this report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	in foregone revenue or lost income opportunities for the Corporation.	Implementing Rules and Regulations; and c. Require compensation from the contractors of the Project for the unauthorized use of the property in the absence of a lease agreement.	
2021 AAR Observation No. 7, page 80	Consultants for not highly technical functions were hired through negotiated procurement instead of competitive bidding contrary to Sections 2 and 53.7 of the Revised Implementing Rules and Regulations (RIRR) of RA No. 9184.	Hiring of consultants whose services are not appropriately categorized as Highly Technical be undertaken thru competitive bidding in accordance with the pertinent provisions of RIRR of RA No. 9184 on procurement of consulting services.	Implemented
2021 AAR Observation No. 8, page 81	Continuous hiring of consultants whose services are duplication of the job/functions of filled and unfilled plantilla positions is contrary to the General Principles on Consulting Services as provided in Section 2 of Annex B of the RIRR of RA No. 9184.	a. Review all the individual consultancy contracts and evaluate the need for their renewal in accordance with the existing rules and regulations; and b. Consider discontinuing the consultancy contract of some consultants whose work and services can be performed by a regular plantilla personnel. Disbursement of government funds in violation of laws, rules and regulations may warrant the issuance of Notice of Disallowance.	Both recommendations were implemented. .

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2021 AAR Observation No. 9, page 82	Consulting Services for the Software Development for Accounting, Budget, Human Resource and IT workgroup was procured under Negotiated Procurement which is contrary to applicable rules on Consulting Services pursuant to the RIRR of RA No. 9184.	Strictly adhere with the general principles on Consulting Services as outlined in Annex B of the RIRR of RA No. 9184. Otherwise, any payment relative thereto would be disallowed in audit.	Implemented
2021 AAR Observation No. 10, page 83	Delay in the implementation of the NDC Administrative and Commercial Complex Project (NACCP) conceptualized in 2009; and the disposal of idle property slated for clearance in 2018, would result in continuous incurrence of expenses given that NDC incurred expenses for said properties amounting to P10.866 million and P1.018 million, respectively, in 2021.	a. Fast track the conduct of activities/works relative to the project development of NACCP to mitigate expenditures which are continuously incurred since the acquisition of the property in 2009 as previous plans did not materialize; and b. Exert more effort in converting these land assets as income-generating properties and expedite the process of disposing the properties scheduled for disposal.	Recommendation (a) was reconsidered while (b) was not implemented. The observation is reiterated in Part II, No. 15 of this report.
2021 AAR Observation No. 11, page 85	Liquidated damages and other claims from the defaulting contractor for the general repair of NDC Building remained uncollected since the contract was terminated by NDC on August 31, 2021.	Require the Legal Department to closely monitor and follow-up the demand for payment of claims from the contractor and insurance company.	Implemented
2021 AAR Observation No. 12, page 87	NDC did not promptly act on the continuation and completion of the general repair of NDC Building, to	Direct the Project-in-Charge to act immediately on the continuation and completion of the said	Reconsidered

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	avoid damage to property or life contrary to Section IV.7 of Annex I of the RIRR of RA No. 9184.	project pursuant to Section IV.7 of Annex I of the RIRR of RA No. 9184.	
2021 AAR Observation No. 13, page 88	The procurement activities for the site development works of the NDC Industrial Estate (NDCIE) project exceeded the maximum period allowed by 329 days contrary to Annex "C" of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184.	a. Justify the delays on the following procurement activities: a.1 Post Qualification; a.2 Issuance of Notice of Award; a.3 Contract Preparation and Signing; and b. Henceforth, strictly follow the allowed timeline for procurement activities based on Annex "C" of the RIRR of RA No. 9184.	Both recommendations were implemented.
2021 AAR Observation No. 14, page 93	The current practice of NDC in procuring Petroleum, Oil and Lubricants (POL), specifically automotive fuels for government vehicles from the selected supplier/service station is not in accordance with the requirements and conditions provided for under RA No. 9184 and its RIRR.	Comply with the requirements and procedures set forth under Section 53.14 of the RIRR of RA No. 9184 such as: a. The officer/employee assigned to conduct procurement of POL products should be properly authorized or delegated with authority by the Bids and Awards Committee through a Resolution approved by the Head of the Procuring Entity; and	Both recommendations were implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		b. Procurement of POL products under the Direct Retail Purchase should be included in the annual procurement plan (APP) in its entirety/estimated amount in full. Changes during the current budget year should be reflected in the APP-2021 Updated.	
2021 AAR Observation No. 15, page 96	Procurement of POL products by Direct Retail Purchase was not covered with a valid contract or agreement which is not in accordance with pertinent regulations applicable to financial transactions.	Execute an agreement with the selected service station and come up with a feasible terms and condition to meet the requirement of obtaining the most advantageous price for the government. Purchase of POL products shall be done through Direct Retail Purchase of POL under Negotiated Procurement.	Reconsidered
2021 AAR Observation No. 16, page 97	Use of NDC Motor Vehicles was not properly controlled and regulated resulting in fuel expenses amounting to P1.118 million in CY 2021, which is 50.74 per cent or P376,425 higher than prior year's consumption.	a. Strictly comply with the proper and complete accomplishment of Driver's Trip Tickets (DTTs) by: i. Instructing all drivers to accurately and fully accomplish DTT; and ii. Requiring the Administrative Department to: a) review, monitor and reconcile discrepancies in the data/information supplied in the DTTs and b) require concerned drivers	All the four recommendations were implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		to explain discrepancies between distance travelled per odometer and per audit; b. Require the Administrative Department to come up with a comprehensive travel program and schedules on the use of transport services in order to minimize fuel expenses and ensure efficient utilization of government vehicles; c. Refrain from using the MV due for disposal in order to avoid excessive fuel and engine oil consumption; and d. Prepare the correct Monthly Report of Official Travels and Fuel Consumption using the prescribed form under COA Circular No. 77-61.	
2021 AAR Observation No. 17, page 100	The Gender and Development (GAD) Plan and Budget (GPB) for CY 2021 of NDC was not endorsed by the Philippine Commission on Women (PCW).	a. Require the GAD Focal Point System-Technical Working Group (GFPS-TWG) to prepare GPB in accordance with Section 8.5 of PCW-NEDA-DBM Joint Circular (JC) No. 2012-01 and to comply with the recommendations or comments made by PCW; and	Both recommendations were not implemented. The observation is reiterated in Part II, No. 26 of this report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		b. Henceforth, ensure that planned programs, activities and projects (PAPs) aim to address GAD issues.	
2021 AAR Observation No. 18, page 101	The GPB and GAD Accomplishment Report (AR) for CY 2021 of NDC were not submitted to the COA Audit Team within the prescribed period as required under Item V of COA Circular No. 2014-001 dated March 18, 2014.	Instruct the GFPS-TWG to comply with the prescribed deadlines on the submission of GPB and GAD AR with attached required documents enumerated in Section 10.4 of PCW-NEDA-DBM JC No. 2012-01 to the COA Audit Team for further evaluation.	Not Implemented The observation is reiterated in Part II, No. 28 of this report.
2021 AAR Observation No. 19, page 102	The amount appropriated for GAD PAPs in CY 2021 was not fully utilized, leaving an unused balance of P243.460 million at year-end, resulting in 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 create an effective monitoring tool to ensure proper implementation of identified GAD PAPs in order to attain the objectives for which funds were provided.	Not Implemented The observation is reiterated in Part II, No. 27 of this report.
2021 AAR Observation No. 20, page 103	The essential elements in NDC's GAD Planning and Budgeting were not present contrary to Section 4 of PCW-NEDA-DBM JC No. 2012-01.	Prioritize and strengthen capacity building of GFPS members in order to effectively plan and implement its GPB.	Implemented
2020 AAR Observation No. 1, page 61	Receivables amounting to P1.240 billion which was already provided with 100 per cent allowance for impairment, remained dormant and have been outstanding in the books for more than 10 years	Require the Accounting Department in collaboration with the Legal Department to file requests for write-off of dormant accounts with the COA, duly supported with documents pursuant to	Not Implemented The observation is reiterated in Part II, No. 7 of this report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	were classified as current assets which is not compliant with Paragraph 66 of Philippine Accounting Standard1 and COA Circular No. 2016-005 dated December 19, 2016.	COA Circular No. 2016-005 dated December 16, 2016 on the proper disposition/closure of the dormant accounts.	
2020 AAR Observation No. 2, page 62	Confirmation with the Bureau of the Treasury (BTr) of the loans and interest payable accounts disclosed an unreconciled difference of P89.691 million casting doubt on the accuracy of the balance of the account, contrary to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.	Continuously coordinate with BTr to reconcile the noted discrepancy and adjust the balances in the books of accounts, to arrive at the correct balances of Loans and Interest Payable to BTr in the financial statements.	Implemented
2020 AAR Observation No. 6, page 73	NDC had already incurred P23.542 million for various expenses on three projects which are under project development stage since 2009. Delay in the implementation of the projects could result in continuous incurrence and piling up of expenses and wastage of government funds and resources in the event that these projects will not materialize.	a. Revisit and update existing guidelines on the conduct of project development to include applicable procedures where NDC intends to implement the project on its own. It is suggested that timetable for each process be provided to ensure accomplishment/ completion of projects within the targeted period; and b. Fast track the conduct of activities/works relative to the project development of the NDC Administrative and Commercial Complex Project and Davao	Recommendation (a) was implemented while (b) was reconsidered.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		Food Complex as basis of NDC Board and Management in arriving at sound decisions on the implementation of the said projects which are still on hold.	
2020 AAR Observation No. 8, page 83	NDC's various Investment Properties were occupied by illegal occupants for residential, commercial and personal purposes, thus depriving NDC of the fruits (civil, natural and industrial) that could have been derived therefrom.	Review the plans of actions and provide the Audit Team with updates on the actions taken to improve and monitor the condition of these properties.	Not Implemented The observation is reiterated in Part II, No. 14 of this report.
2020 AAR Observation No. 9, page 87	Several Investment Properties remained idle/vacant, depriving NDC of income from the prospective use of such properties while incurring expenses for security services and real property taxes.	Prioritize the conversion of these land assets to income-generating properties and expedite the process of disposing the properties scheduled for disposal.	Not Implemented The observation is reiterated in Part II, No. 15 of this report.
2020 AAR Observation No. 10, page 90	The escrow fund held in trust by NDC was not distributed to the former shareholders of Mindanao Textile Corporation (Mintex) in light of the expiration of the Trust and Management Agreement which consequently authorized NDC to distribute the full amount of escrow fund as stated in Office of the Government Corporate Counsel Opinion No. 041, series of 2020.	a. Expedite the distribution of the full amount of escrow fund to the former shareholders of Mintex through execution of a new agreement, taking into consideration the terms of the present investments: a.1 The escrow fund under short term investments may be distributed to Southern Philippines Development	Both recommendations were implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		Authority (SPDA) and Human Settlements Development Corporation (HSDC) and NDC, wherein SPDA and HSDC will receive their share in full. a.2 The escrow fund invested in retail treasury bonds may be transferred to NDC as full settlement of NDC's share; and b. Record the settlement and adjust accordingly the books of NDC to reflect the correct balances of accounts.	
2019 AAR Observation No. 3, page 61	The balances of the car and housing loans granted to former NDC officials and employees aggregating to P0.822 million and P5.969 million, respectively, or a total of P6.791 million as of December 31, 2019, remained outstanding/dormant for more than two to 21 years	a. Require the Legal Department to immediately file complaints against defaulting former NDC officials and employees to recover the loaned amount; b. Strictly enforce sanctions provided in the housing loan agreements thru the Legal Department; and c. Revisit the policies on car and housing loans. Stricter control measures have to be adopted in case officers and employees resign or separate from the Corporation.	Recommendations (a) and (b) were not implemented while recommendation (c) was reconsidered. The observation is reiterated in Part II, No. 12 of this report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2019 AAR Observation No. 8, page 76	Unremitted cost of audit services to the National Government (NG) accumulated to P11.961 million as of December 31, 2019.	a. Reconcile with the Accounting Office, COA-Planning, Finance and Management Sector (PFMS) for any difference between the assessment billed and the actual cost incurred; and b. Remit the balance of cost of audit services due to the NG to the BTr and furnish the Accounting Office, COA-PFMS copy of proof of remittance to BTr for easy reference and reconciliation between NDC records and COA-PFMS records.	Both recommendations were not implemented. The observation is reiterated in Part II, No. 5 of this report.
2019 AAR Observation No. 9, page 78	Payments for membership fees for inactive club shares amounting to P71,680 were considered unnecessary expenditure under COA Circular No. 2012-003.	Dispose immediately the unutilized and/or inactive shares to avoid incurring unnecessary expenses in the form of membership fees.	Reconsidered
2017 AAR Observation No. 4, page 60	Non-operational NDC subsidiaries continue to exist.	Prepare and implement plan of actions with timelines relative to the disposition of non-operational NDC subsidiaries and expedite the dissolution of these non-performing assets once approval is secured.	Not Implemented The observation is reiterated in Part II, No. 10 of this report.