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, 2023 and 2022

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

CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4 - INDUSTRIAL AND AREA DEVELOPMENT

June 27, 2024

NATIONAL DEVELOPMENT COMPANY
CORPORATE SUPPORT GROUP
Received by: PHILIPPINE T. FAJARDO
Date: JUNE 27, 2024
Time: 4:31 pm

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

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the National Development Company (NDC) for the years ended December 31, 2023, and 2022.

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

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

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

1. The prolonged negotiation/finalization between NDC and the Toll Regulatory Board (TRB) of the compensation price on the negotiated sale of the 13,297.97 square meters (sq. m.) portion of the Pandacan property affected by the Right-of-Way (ROW) of the Metro Manila Skyway Stage 3 Project, with an offer amounting to P757.984 million since calendar year (CY) 2018, deprived NDC of funds that could be used for its operations.

   We reiterated our prior years' recommendations that Management:

   a. Coordinate with TRB to expedite the execution of Memorandum of Agreement for the immediate resolution of the issues on the ROW acquisition of the Pandacan property and the corresponding just compensation thereof; and

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

2. Several NDC investment properties are either idle/vacant, occupied by illegal occupants, or underutilized, depriving NDC of potential income while incurring Real Property Taxes and Security Services expenses aggregating to P29.079 million in CY 2023.

   We recommended that Management:

   a. Determine whether Brgy. Biaan, Mariveles, Bataan property is within the Ancestral Domain/Lands or belonging to Indigenous Cultural Communities/Indigenous Peoples. Apprise the Audit Team on the status thereof;

   b. Coordinate with the Department of Public Works and Highways regarding the property in Brgy. Alas-asin, Mariveles, Bataan affected by the Bataan-Cavite Project, and to facilitate negotiation for a possible sale of the subject property;

   c. Coordinate with the Local Government Unit (LGU) and the school administration with reference to the Brgy. Batangas II, Mariveles, Bataan property, and determine whether Site 3 can still be pursued for possible school expansion;

   d. Coordinate with the LGUs to take necessary and appropriate actions against illegal settlers/occupants on NDC properties. Issue a notice/demand to immediately vacate the property or resort to any legal means available to NDC. Otherwise, collect compensation therefrom;

   e. Promote and advertise all idle/vacant properties to attract prospective lessees and/or buyers. Otherwise, study other options available to NDC for the best and most productive use of the properties; and

   f. Coordinate with Department of Human Settlements and Urban Development for NDC properties eyed for the Pambansang Pabahay for the Filipino Program.

   Further, we recommended and Management agreed to submit a Semestral Status Report to the Audit Team regarding Management's monitoring of NDC properties and provide detailed and updated information on it.

3. Eight investment properties amounting to P203.990 million with an aggregate area of 19,546 sq. m., acquired by NDC either through dividend, donation, or assignment, remained unregistered despite the lapse of four decades, exposing government assets to legal risks and/or loss of the actual property.

   We reiterated our previous years' recommendation that Management exert utmost effort to expedite the titling of lands under NDC's name.

4. Despite several extensions, the site development works for the NDC Industrial Estate (NDCIE) Project, located in Barangay Langkaan II, Dasmariñas City, Cavite, with a contract amount of P171.737 million, have yet to be completed.

   We recommended that Management:

   a. Determine courses of action to be implemented in the area where soil erosion occurred affecting the construction of the administration building and other improvements;

b. Formulate a definitive action plan on the construction of a water supply system for NDCIE to prevent further delays in the project;

c. Coordinate promptly and regularly with government regulatory agencies for timely resolution should any problem arise; and

d. Henceforth, ensure the reliability, completeness, and timeliness of the preliminary engineering study for future infrastructure projects before proceeding with the Detailed Engineering Design in accordance with the Revised Implementing Rules and Regulations of Republic Act No. 9184.

5. The value of NDC's investment of P45 million in the Rizal Hydropower Project declined significantly due to continuous losses since its commercial operations in CY 2016.

   We recommended that Management coordinate with the Philippine National Oil Company Renewables Corporation and formulate an action plan to obtain the most advantageous result for both parties and, ultimately, for the government.

6. NDC-Philippine Infrastructure Corporation (NPIC) remained idle and non-operational for 16 years despite NDC's plan to use the former as a vehicle for infrastructure projects, resulting in the non-utilization of government assets and resources in a judicious and efficient manner.

   We recommended that Management:

   a. Proceed with the application for reactivation of NPIC so that it is ready for any NDC projects; and

   b. Formulate concrete plans and realizable projections on the use of NPIC as NDC's vehicle for its projects to avoid further stagnation of the former's assets and resources and to ensure their judicious and efficient utilization.

7. NDC's protracted acquisition of the 40 per cent share of Goodyear Phils. Inc. (GPI) in GY Real Estate, Inc. (GYREI) adversely affects GYREI's financial condition and going concern status.

   We reiterated our previous year's recommendation that Management expedite the purchase of GPI's 40 per cent share in GYREI. Thereafter, develop a concrete plan to maximize the utilization of the subject property and improve GYREI's financial condition in the best interest of the stakeholders and the government.

8. NDC's impending acquisition of the 40 per cent share of GE Lighting Philippines, Inc. (GELP) in Pinagkaisa Realty Corporation (PRC) and the lack of a definitive plan after the turn-over of the PRC's investment property have adversely affected its financial condition and going concern status.

   We reiterated our previous year's recommendation that Management provide a clear plan regarding its impending acquisition of the 40 per cent share of GELP in PRC and outline a comprehensive strategy for the PRC's sustainable operation and profitability.

9. Copies of contracts, Purchase Orders (POs), and Job Orders (JOs) and their supporting documents aggregating P36.465 million were not submitted as prescribed under Sections 3.1 and 3.2 of COA Circular No. 2009-001, thus preventing the Audit Team from conducting a timely review and evaluation.

   We recommended and Management agreed to:

   a. Strictly comply with Sections 3.1 and 3.2 of COA Circular No. 2009-001 on the submission of contracts, POs, and JOs, including attachments/supporting documents, within five working days from the execution date;

   b. Monitor and remind each work group on the timely submission of contracts, POs and JOs, and supporting documents;

   c. Henceforth, for submissions of contracts, POs, and JOs, where delay cannot be avoided due to factors beyond NDC's control or those reviewed by the Office of the Government Corporate Counsel, attach an explanation with supporting documents; and

   d. Also, submit a quarterly summary of all contracts entered into by NDC to ensure complete and timely submission of all contracts.

The audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on May 31, 2024, are presented in detail in Part II of the report.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:

EMMA V. MOISES
Director IV
Cluster Director

Copy furnished:

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

June 27, 2024

NATIONAL DEVELOPMENT COMPANY
OFFICE OF THE GENERAL MANAGER
Received by: ASHLY GEMAR ABALOS
Date: 06-27-24
Time: 4:30 PM

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

Dear Mr. Mauricio:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the National Development Company (NDC) for the years ended December 31, 2023, and 2022.

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

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   We reiterated our prior years' recommendations that Management:

   a. Coordinate with TRB to expedite the execution of Memorandum of Agreement for the immediate resolution of the issues on the ROW acquisition of the Pandacan property and the corresponding just compensation thereof; and

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   c. Coordinate with the Local Government Unit (LGU) and the school administration with reference to the Brgy. Batangas II, Mariveles, Bataan property, and determine whether Site 3 can still be pursued for possible school expansion;

   d. Coordinate with the LGUs to take necessary and appropriate actions against illegal settlers/occupants on NDC properties. Issue a notice/demand to immediately vacate the property or resort to any legal means available to NDC. Otherwise, collect compensation therefrom;

   e. Promote and advertise all idle/vacant properties to attract prospective lessees and/or buyers. Otherwise, study other options available to NDC for the best and most productive use of the properties; and

   f. Coordinate with Department of Human Settlements and Urban Development for NDC properties eyed for the Pambansang Pabahay for the Filipino Program.

   Further, we recommended and Management agreed to submit a Semestral Status Report to the Audit Team regarding Management's monitoring of NDC properties and provide detailed and updated information on it.

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b. Formulate a definitive action plan on the construction of a water supply system for NDCIE to prevent further delays in the project;

c. Coordinate promptly and regularly with government regulatory agencies for timely resolution should any problem arise; and

d. Henceforth, ensure the reliability, completeness, and timeliness of the preliminary engineering study for future infrastructure projects before proceeding with the Detailed Engineering Design in accordance with the Revised Implementing Rules and Regulations of Republic Act No. 9184.

5. The value of NDC's investment of P45 million in the Rizal Hydropower Project declined significantly due to continuous losses since its commercial operations in CY 2016.

   We recommended that Management coordinate with the Philippine National Oil Company Renewables Corporation and formulate an action plan to obtain the most advantageous result for both parties and, ultimately, for the government.

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   We reiterated our previous year's recommendation that Management expedite the purchase of GPI's 40 per cent share in GYREI. Thereafter, develop a concrete plan to maximize the utilization of the subject property and improve GYREI's financial condition in the best interest of the stakeholders and the government.

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   We recommended and Management agreed to:

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   c. Henceforth, for submissions of contracts, POs, and JOs, where delay cannot be avoided due to factors beyond NDC's control or those reviewed by the Office of the Government Corporate Counsel, attach an explanation with supporting documents; and

   d. Also, submit a quarterly summary of all contracts entered into by NDC to ensure complete and timely submission of all contracts.

The audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on May 31, 2024, are presented in detail in Part II of the report.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:

EMMA V. MOISES
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
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

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

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

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

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

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

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

As of December 31, 2023, NDC has 30 permanent employees and 15 contractual employees.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

	2023	2022 (As restated)	Increase (Decrease)
Assets	36,151,443,117	31,587,547,149	4,563,895,968
Liabilities	8,127,369,377	6,981,706,132	1,145,663,245
Equity	28,024,073,740	24,605,841,017	3,418,232,723

Comparative Results of Operations

	2023	2022 (As restated)	Increase (Decrease)
Income	4,854,472,869	5,673,046,394	(818,573,525)
Expenses	214,827,463	197,179,966	17,647,497
Income before income tax	4,639,645,406	5,475,866,428	(836,221,022)
Income tax expense	1,137,064,893	1,360,264,576	(223,199,683)
Net Income	3,502,580,513	4,115,601,852	(613,021,339)

SCOPE OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of NDC for the period January 1 to December 31, 2023, 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, 2023, and 2022. Also, we conducted our audits to assess compliance with pertinent laws, rules, and regulations, as well as adherence to prescribed policies and procedures.

AUDITOR'S OPINION

We rendered an unqualified opinion on the fairness of the presentation of the financial statements of NDC for the years 2023 and 2022.

SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. The prolonged negotiation/finalization between NDC and the Toll Regulatory Board (TRB) of the compensation price on the negotiated sale of the 13,297.97 square meters (sq. m.) portion of the Pandacan property affected by the Right-of-Way (ROW) of the Metro Manila Skyway Stage 3 Project, with an offer amounting to P757.984 million since calendar year (CY) 2018, deprived NDC of funds that could be used for its operations.

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d. Also, submit a quarterly summary of all contracts entered into by NDC to ensure complete and timely submission of all contracts.

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

As of December 31, 2023, the total audit suspensions, disallowances, and charges issued in the audit of various NDC transactions amounted to 20.845 million, details of which are included in Part II of this report.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 77 audit recommendations embodied in the prior year's Annual Audit Report, 45 were fully implemented/reconsidered, and 32 were not implemented, thus are reiterated in Part II of this Report. Details are presented in Part III of this Report.

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PART I

AUDITED FINANCIAL STATEMENTS

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

Unqualified Opinion

We have audited the financial statements of National Development Company (NDC), which comprise the statements of financial position as at December 31, 2023, and 2022, 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, 2023, and 2022, and its financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are independent of the NDC in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics)) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 37 to the financial statements that disclosed that the NDC became a party litigant to several cases/petitions filed for or against NDC, and are pending before the appellate courts, the lower courts, and certain administrative bodies. These cases involve civil actions for collection of sums of money, reconveyance of property/title, payment of just compensation, specific performance, and action for refund of taxes withheld. Since the outcome of the cases cannot be determined, claims for assets and provisions for any liability that may result have not been recognized in the financial statements. Our opinion is not modified with respect to this matter.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing NDC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate NDC or to cease operations or has no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 required under Revenue Regulation No. 15-2010 in Note 39 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

Atty. DENNIS CRC DE LEON
OIC - Supervising Auditor

May 31, 2024

NATIONAL DEVELOPMENT COMPANY
Enabling the future.

BAGONG PILIPINAS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of National Development Company (NDC) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2023 and 2022, 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
Assistant General Manager - Finance and Subsidiaries Group

May 31, 2024

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF FINANCIAL POSITION
December 31, 2023 and 2022
(In Philippine Peso)

	Note	**2023**	2022 (As restated)	January 1, 2022 (As restated)
ASSETS				
Current Assets				
Cash and cash equivalents	7	**215,581,117**	255,664,554	254,749,119
Other investments	8	**1,017,866,401**	1,627,432,908	1,632,243,702
Receivables, net	9	**231,246,979**	202,564,214	202,052,533
Inventories	10	**1,671,740**	1,627,648	1,797,258
Other current assets	11	**687,854,590**	32,203,493	40,598,722
Total Current Assets		**2,154,220,827**	2,119,492,817	2,131,441,334
Non-Current Assets				
Financial assets	12	**1,354,658,550**	1,395,461,736	1,350,502,786
Investments in associates/affiliates	13	**275,309,871**	246,804,019	216,482,931
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	**79,111,059**	79,362,457	61,563,241
Investment property	16	**31,472,238,370**	27,033,272,204	21,743,121,151
Property and equipment, net	17	**188,287,666**	71,941,780	50,642,341
Other non-current assets	18	**28,854,755**	42,450,117	49,087,907
Total Non-Current Assets		**33,997,222,290**	29,468,054,332	24,070,162,376
TOTAL ASSETS		**36,151,443,117**	31,587,547,149	26,201,603,710
LIABILITIES AND EQUITY				
Current Liabilities				
Financial liabilities	19	**638,903,456**	616,100,350	618,009,000
Inter-agency payables	20	**23,616,605**	16,848,402	7,445,457
Trust liabilities	21	**11,696,380**	32,192,806	35,571,374
Deferred credits/unearned income	22	**26,048,915**	9,880,921	6,136,927
Provisions	23	**322,275,371**	316,463,017	313,909,671
Other payables	24	**2,330,260**	796,913	299,518
Total Current Liabilities		**1,024,870,987**	992,282,409	981,371,947
Non-Current Liabilities				
Deferred tax liability	32	**7,059,492,309**	5,951,501,338	4,619,143,713
Trust liabilities	21	**43,006,081**	37,922,385	41,983,845
Total Non-Current Liabilities		**7,102,498,390**	5,989,423,723	4,661,127,558
Equity	33	**28,024,073,740**	24,605,841,017	20,559,104,205
TOTAL LIABILITIES AND EQUITY		**36,151,443,117**	31,587,547,149	26,201,603,710

The notes on pages 9 to 65 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2023 and 2022
(In Philippine Peso)

	Note	2023	2022 (As restated)
INCOME			
Business income	25	**402,135,541**	334,552,040
Gains	26	**4,446,303,644**	5,330,323,267
Other non-operating income	27	**6,033,684**	8,171,087
		4,854,472,869	5,673,046,394
EXPENSES			
Personnel services	28	**50,571,131**	39,919,610
Maintenance and other operating expenses	29	**148,109,429**	131,458,645
Financial expenses	30	**3,925,826**	3,931,769
Non-cash expenses	31	**12,221,077**	21,869,942
		214,827,463	197,179,966
INCOME BEFORE INCOME TAX		**4,639,645,406**	5,475,866,428
INCOME TAX EXPENSE			
Current tax	32	**29,073,922**	27,906,951
Deferred tax	32	**1,107,990,971**	1,332,357,625
NET INCOME		**3,502,580,513**	4,115,601,852
Other comprehensive income	12	**4,804,810**	21,580,025
TOTAL COMPREHENSIVE INCOME		**3,507,385,323**	4,137,181,877

The notes on pages 9 to 65 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2023 and 2022
(In Philippine Peso)

	Note	Share Capital (Note 33)	Share in Revaluation Increments of Associates	Accumulated Other Comprehensive Income	Retained Earnings (Note 33)	Total
Balances, December 31, 2021, as restated		**8,602,803,483**	**28,883,100**	**41,479,735**	**11,875,877,147**	**20,549,043,465**
Correction of prior years' errors	34	0	0	0	10,060,740	10,060,740
Balances, January 1, 2021, as restated		**8,602,803,483**	**28,883,100**	**41,479,735**	**11,885,937,887**	**20,559,104,205**
Changes in Equity for 2022						
Net income for the year		0	0	0	4,115,601,852	4,115,601,852
Dividends	36	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**	**15,911,094,674**	**24,605,841,017**
Changes in Equity for 2023						
Net income for the year		0	0	0	3,502,580,513	3,502,580,513
Dividends	36	0	0	0	(89,152,600)	(89,152,600)
Other comprehensive income for the year						
Unrealized gain on financial assets at FVOCI	12	0	0	4,804,810	0	4,804,810
Balances, December 31, 2023		**8,602,803,483**	**28,883,100**	**67,864,570**	**19,324,522,587**	**28,024,073,740**

The notes on pages 9 to 65 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022
(In Philippine Pesos)

	Note	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Collection of rentals		**250,758,880**	156,376,509
Collection of interest		**33,422,658**	33,145,056
Dividends received		**13,858,937**	17,194,745
Collection of receivables		**19,596,794**	5,236,310
Miscellaneous collections		**2,951,787**	1,859,626
Total Cash Inflows		**320,589,056**	213,812,246
Cash Outflows			
Payment to suppliers and service providers		**244,243,506**	91,038,466
Payment of taxes and licenses		**53,213,999**	77,647,807
Payment of salaries and benefits to officers and employees		**52,995,076**	33,736,632
Total Cash Outflows		**350,452,581**	202,422,905
Net cash provided by operating activities		**(29,863,525)**	11,389,341
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Proceeds/placements on investments		**77,784,504**	83,494,196
Proceeds from disposal of assets		**390,378**	8,572,123
Collection of loans		**132,550**	1,308,320
Total Cash Inflows		**78,307,432**	93,374,639
Cash Outflow			
Loan released		**0**	13,500,000
Total Cash Outflow		**0**	13,500,000
Net cash provided by investing activities		**78,307,432**	79,874,639
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Outflow			
Payment of dividends	36	**89,152,600**	90,445,065
Total Cash Outflow		**89,152,600**	90,445,065
Net cash used in financing activities		**(89,152,600)**	(90,445,065)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**625,256**	96,520
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(40,083,437)**	915,435
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**255,664,554**	254,749,119
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**215,581,117**	255,664,554

The notes on pages 9 to 65 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 country's economic development.

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

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

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

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

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

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

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

The Department of Budget and Management approved the new structure of NDC on May 29, 2003, as well as the required staffing pattern and qualification standards for all positions. The corresponding Implementing Rules and Regulations of EO No. 184 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 NDC's principal office is located at the NDC Building, No. 116 Tordesillas St., Salcedo Village, Makati City.

The accompanying financial statements as of December 31, 2023, and 2022 were approved and authorized for issue by the Management on May 31, 2024.

2. GOING CONCERN

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

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

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

3. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

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

Basis of Preparation

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

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

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

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

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

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

Functional and Presentation Currency

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

4. NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Amended PFRS

a. *Effective in 2023 that are relevant to the NDC*

   The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the NDC adopted effective for annual periods beginning on or after January 1, 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 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 as "monetary amounts in financial statements that are subject to measurement uncertainty" and clarified 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.

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

The new and amended PFRS which are not yet effective for the year ended December 31, 2023, and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2024:

- Amendments to PFRS 16, *Leases,* Lease Liability in a Sale and Leaseback – The amendments pertain to the addition of subsequent measurement requirements for sale and leaseback transactions.

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

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

- Amendments to PFRS 17, *Insurance Contracts* – On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of IFRS 17 by two (2) years after its effective date as decided by the IASB.

The main changes resulting from Amendments to PFRS 17 are:

- o 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.

- o 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.

- o 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.

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

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

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

- o 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.

- o 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.

- o 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.

- o 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 the 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 NDC's financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

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

Financial Assets

Initial Recognition

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

Classification and Subsequent Measurement

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

Financial Assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

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

Financial Assets at Amortized Cost

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

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial Assets at FVOCI

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

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

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

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

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

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

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

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

Impairment of financial assets- starting January 1, 2022:

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

Loss allowances are measured on either of the following bases:

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

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

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

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

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

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

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

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

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

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

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

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

Measurement of ECLs

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

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

Impairment of financial assets- before January 1, 2022:

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

Derecognition of financial assets

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

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

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

Financial Liabilities and Equity Instruments

Classification as Debt or Equity

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

Financial Liabilities

Initial recognition

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

Classification and Subsequent Measurement

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

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

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

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

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

Other financial liabilities

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

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

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

Offsetting financial instruments

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

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

Derecognition of financial liabilities

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

Equity instruments

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

Retained earnings

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

Investment in Subsidiary

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

An investment in subsidiary is accounted for using the cost method from the date on which the investee becomes a subsidiary. Under the cost method, the investment in subsidiary is initially measured at cost and 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 or loss.

Investment in Joint Venture (JV)

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

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

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

Investment in Associate/Affiliate

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

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

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

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

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

Investment Property

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

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

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

Property and Equipment

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

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

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

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

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

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

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

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

Impairment of Non-financial Assets

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

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

Derecognition of Non-financial assets

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

Related Parties

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

Revenue Recognition

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

Dividend Income

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

Interest Income

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

Lease Income

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

Expense Recognition

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

Leases

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

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

The NDC as Lessor

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

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

Employee Benefits

Short-term Benefits

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

Terminal leave benefits

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

Provident fund

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

Income Tax

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

Current Tax

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

Deferred Tax

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

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

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

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

Current and Deferred Tax for the Year

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

Borrowing Costs

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

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

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

Provisions and Contingencies

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

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

Foreign Currency Transactions

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

At each reporting date:

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

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

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

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

Changes in Accounting Policies and Estimates

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

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

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

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

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

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

Events after the Reporting Date

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

6. JUDGMENTS AND ESTIMATES

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

Estimated allowance for impairment of receivables

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

At the end of 2023 and 2022, the NDC recognized the allowance for impairment of receivables in the amounts of P2.532 million and P6.576 million, respectively.

Estimating useful lives of property and equipment

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

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

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

7. CASH AND CASH EQUIVALENTS

This account consists of:

	2023	2022
Cash with collecting/disbursing officer	**104,273**	110,326
Cash in banks	**53,108,838**	5,554,228
Cash equivalents	**162,368,006**	250,000,000
	215,581,117	255,664,554

Cash in banks earns interest at the prevailing bank deposit rates. Interest earned on Cash in banks amounted to P14,782 and P7,978 in calendar years (CYs) 2023 and 2022, 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 rate ranging from 4.15 to 6.03 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 P1.018 billion and P1.627 billion in CYs 2023 and 2022, respectively. Interest earned on these investments amounted to P100.297 million and P42.931 million in CYs 2023 and 2022, respectively.

9. RECEIVABLES

This account consists of:

	2023	2022 (As restated)
Current		
Interest receivables	**84,264,549**	79,779,978
Rental receivables	**72,548,734**	57,883,453
Due from officers and employees	**880,045**	866,248
Other receivables	**333,669,155**	321,617,543
	491,362,483	460,147,222
Allowance for impairment losses	**(260,115,504)**	(257,583,008)
	231,246,979	202,564,214
Non-Current		
Loans receivable	**1,115,088,322**	1,115,088,322
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	**7,481,790**	7,733,188
Due from National Government (NG)	**3,252,878**	3,252,878
	2,276,505,802	2,276,757,200
Allowance for impairment losses	**(2,197,394,743)**	(2,197,394,743)
	79,111,059	79,362,457

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

Rental receivables consists of collectibles from leases of real properties covered by lease agreements between the Corporation and lessees. The rental receivable from Philippine Pharma Procurement Inc. (PPPI) amounting to P9.204 million represents the outstanding balance for the leased offices located on the ground, 2nd, and 12th Floors of the NDC building. PPPI has been incurring significant losses and has not been able to pay its monthly rentals and assessment fees to NDC. Consequently, in CY 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 25).

Due from officers and employees pertains to loans granted by the NDC 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 a restructured loan to the Philippines Mining Development Corporation (PMDC) with terms of up to 10 years starting July 30, 2013. PMDC requested a re-computation of its outstanding restructured loan and filed an arbitration case in November 2019. The Office of the Government Corporate Counsel (OGCC) noted the comment filed by NDC in September 2020. On October 22, 2021, the OGCC conducted a Case Management Conference. During the said conference, OGCC required the counsels of the parties to secure authority from their respective Board of Directors to represent the parties in the arbitration and to negotiate for the possible settlement of the case. On November 5, 2021, NDC received the settlement proposal of PMDC. On November 8, 2021, NDC submitted the Secretary's Certificate showing the authority granted to its counsels to represent NDC in the arbitration. On November 22, 2021, NDC submitted its proposed settlement to PMDC. The OGCC scheduled the Preliminary Conference in April 2022. On July 6, 2022, NDC filed a memorandum relative to the complaint for arbitration filed by PMDC against NDC, alleging that the P25 million advances made by NDC were for additional equity and not a loan. As of December 31, 2023, the committee of the Arbitration Panel has not yet issued a resolution in regard to the case. This also includes loan to GY Real Estate, Inc., one of the subsidiaries of NDC, amounting to P13.500 million with a term of two years at an 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 from the loan that was restructured on June 30, 2013, between NDC and PPPI. The loan is payable every quarter for a period of eight years and bears an interest rate of seven per cent per annum. Since CY 2014, PPPI has been unable to make any installment payments or pay the accrued interest on its restructured loan. In CY 2015, considering PPPI's unfavorable financial condition and in accordance with the Manual of Regulations for Non-Bank Financial Institutions, NDC suspended the recognition of interest income from PPPI loans in the books. In CY 2017, a 100 per cent allowance for impairment was provided for the outstanding principal and interest balance of PPPI.

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

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

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

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

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

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

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

- On May 19, 2022, the OP dismissed the appeal filed by PNCC. A Motion for Reconsideration was filed by PNCC.

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

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

A reconciliation of the allowance for impairment losses at the beginning and end of CYs 2023 and 2022 is shown below:

	2023	2022
Beginning balance	**2,454,977,751**	2,448,401,810
Impairment loss during the year		
Rental Receivables	**2,195,770**	6,575,941
Others	**336,726**	0
	2,457,510,247	2,454,977,751

10. INVENTORIES

This account consists of the following:

	2023	2022
Inventory held for consumption:		
Carrying amount, January 1	**1,627,648**	**1,797,258**
Additions/acquisitions during the year	**1,386,133**	**1,025,264**
Expensed during the year	**(1,342,041)**	**(1,194,874)**
Carrying amount, December 31	**1,671,740**	**1,627,648**

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:

	2023	2022 (As restated)
Restricted fund (held-in-trust)	**655,122,152**	8,286,949
Prepayments	**32,494,031**	23,882,966
Advances	**238,407**	33,578
	687,854,590	32,203,493

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 the Human Settlements Development Corporation, the Southern Philippines Development Authority, and NDC. The purpose of the fund includes the entire settlement and liquidation of liabilities, which were assumed by the shareholders of the old Mintex, and the eventual distribution of the remaining trust assets. On February 9, 2023, the Mintex escrow funds were distributed following the new MOA based on their proportionate shareholdings.

This account also includes the fund for the hydropower project with the Philippine National Oil Company Renewables Corporation (PNOC RC), amounting to P45 million. On July 1, 2014, PNOC RC and NDC entered into a Memorandum of Agreement for the development, commercialization, operation, and maintenance of the Pampanga River Irrigation System Main Canal Hydroelectric Power Project (Rizal Hydropower Project) for energy commercialization. On September 4, 2014, the Department of Energy confirmed the declaration of commerciality and approved the conversion of the Rizal Hydropower Service Contract from pre-development to development/commercial stage. This commenced the development and utilization of the Rizal Hydropower plant facility, which has a capacity of one megawatt. The plant started commercial operation on July 1, 2016. Cash and cash equivalents from Rizal Hydro Power amounted to P6.361 million as of December 31, 2023. NDC recognized 50 per cent share amounting to P3.181 million, these are funds reserved for the operation of the project.

The account also includes cash earmarked for the Startup Venture Fund, amounting to P499.973 million, and the Waste to Fuel project, amounting to P150 million.

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

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

12. FINANCIAL ASSETS

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

	2023	2022
Financial assets at amortized cost	**1,217,164,655**	1,262,772,651
Financial assets at fair value through other comprehensive income	**137,493,895**	132,689,085
	1,354,658,550	1,395,461,736

Financial assets at amortized cost

This account consists of long-term investments in retail treasury bonds purchased by NDC from the Land Bank of the Philippines with an interest rate ranging from 2.38 per cent to 4.00 per cent.

Interest earned on these investments amounted to P34.911 million and P34.631 million in CYs 2023 and 2022, respectively.

Financial assets at fair value through other comprehensive income

This account consists of investments in the following:

	2023	2022
Manila Golf and Country Club	**115,000,000**	87,500,000
Philippine Long Distance Telephone Company	**16,469,085**	22,659,060
Makati Sports Club	**1,100,000**	850,000
Philippine Columbian Association	**120,000**	100,000
	132,689,085	111,109,060
Market adjustment	**4,804,810**	21,580,025
	137,493,895	132,689,085

13. INVESTMENTS IN ASSOCIATES/AFFILIATES

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

		% of Ownership	2023	2022 (as restated)
Cost				
Refractories Corporation of the Phils.	RCP	33.00	**193,620,979**	193,620,979
San Carlos Bio-Energy, Inc.	SCBI	3.86	**172,900,000**	172,900,000
Manila Exposition Complex, Inc.	MECI	36.36	**120,000,000**	120,000,000
Philippine Dockyard Corporation	PDC	35.00	**101,650,000**	101,650,000
Triad Asia, Ltd.	TAL	50.00	**65,435,000**	65,435,000

		% of Ownership	2023	2022 (as restated)
Alabang-Sto. Tomas Development, Inc.	ASDI	49.00	**58,432,010**	58,432,010
Philippine Mining Development Corp.	PMDC	20.00	**25,000,000**	25,000,000
Phividec Industrial Estate	PIE	23.95	**17,000,000**	17,000,000
Philippine Pharma Procurement, Inc.	PPPI	40.00	**15,000,000**	15,000,000
Metro Hospital Waste Conversion	MHWC	40.00	**12,000,000**	12,000,000
First International Document Masters, Inc.	FIDMI	40.00	**4,000,000**	4,000,000
UP-NDC Basilan Plantations, Inc.	UNBPI	40.00	**2,400,000**	2,400,000
Interbank Venture Capital Corporation	IVCC	20.00	**1,000,000**	1,000,000
Philbancor Venture Capital Corporation	PBVCC	20.00	**1,000,000**	1,000,000
Veterans Venture Capital Corporation	VVCC	20.00	**1,000,000**	1,000,000
LIDE Management Corporation	LMC	20.00	**20,000**	20,000
San Jose Oil Company	SJOC	20.00	**1,716**	1,716
			790,459,705	790,459,705
Accumulated equity in net earnings (losses)				
Balance at the beginning of the year			**(263,584,922)**	(293,906,009)
Share in net profit for the year.			**29,060,441**	30,872,893
Dividends received			**(554,589)**	(551,805)
Balance at the end of the year			**(235,079,069)**	(263,584,921)
Share in the revaluation increment of an associate			**28,883,100**	28,883,100
Share in prior period adjustment of associates			**(104,467,149)**	(104,467,149)
			479,796,587	451,290,735
Allowance for impairment losses			**(204,486,716)**	(204,486,716)
			275,309,871	246,804,019

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 RCP is undergoing court litigation on its corporate rehabilitation plan. A court hearing was held on February 26, 2016, at the Pasig RTC. The Court has not yet issued an order on the issues of the case.

14. INVESTMENTS IN SUBSIDIARIES

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

		% of Ownership	2023	2022
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

		% of Ownership	2023	2022
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	**400,000,000**	400,000,000
Manila Gas Corporation	MGC	91.70	**74,616,000**	74,616,000
NDC-Philippine Infrastructure Corp.	NPIC	100.00	**80,000,000**	80,000,000
For dissolution				
Luzon Stevedoring Corporation	LSC	100.00	**330,987,000**	330,987,000
Preferred Shares				
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	**500,000,000**	500,000,000
			1,672,147,167	1,672,147,167
Allowance for impairment losses			**(1,269,832,038)**	(1,269,832,038)
			402,315,129	402,315,129

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

The First Centennial Clark Corporation (FCCC) had ceased operations way back in CY 2007, when Clark Development Corporation (CDC), a subsidiary of the Bases Conversion and Development Authority (BCDA), terminated with finality the Lease Agreement dated October 30, 1997, between CDC and FCCC for the failure of FCCC to pay the rental fees. Prior to such termination, FCCC and CDC entered into a Management Agreement whereby CDC operated the FCCC leasehold area. However, CDC simultaneously canceled the said Memorandum of Agreement and the Lease Agreement. Both NDC and FCCC requested that the CDC reconsider such termination, but to no avail. As a consequence of the CDC's cancellation of leasehold rights, the CDC took over and appropriated the structures and buildings of FCCC erected on the leased area.

The dividend income earned by the NDC from its investment in subsidiaries amounted to P1.915 million and P4.701 million in CYs 2023 and 2022, respectively.

15. OTHER INVESTMENTS

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

		% of Ownership	2023	2022
Common Shares				
Operational				
Asean Bintulu Fertilizer Sdn. Bhd.	ABFSB	9.50	**158,895,989**	158,895,989
Science Park of the Philippines,Inc.	SPPI	4.59	**24,951,957**	24,951,957

		% of Ownership	2023	2022
Non-operational				
Paper Industries Corp. of the Phils.	PICOP	0.28	**15,000,000**	15,000,000
Menzi Development Corporation	MDC	5.20	**10,000,000**	10,000,000
For dissolution				
P.T Asean Aceh Fertilizer	PTAAF	13.00	**106,605,963**	106,605,963
Resort Hotels	RH	6.30	**6,474,300**	6,474,300
LSCO- PDCP	LPDCP	0.00	**188,550**	188,550
LSCO – Republic Planters Bank	LRPB	0.00	**96,000**	96,000
LSCO- PLDT	LPLDT	0.00	**15,250**	15,250
Pre-operating				
Asean Potash Mining Corporation	APMC	1.00	**12,598,944**	12,598,944
Under receivership				
National Steel Corporation	NSC	0.53	**622,305,756**	622,305,756
Preferred Shares				
Under receivership				
National Steel Corporation	NSC	0.53	**1,196,967,152**	1,196,967,152
Other Investments				
Investments in the 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, the majority of the secured creditors and the stockholders of NSC came into a general understanding and agreement as to the disposition of the NSC plant assets, the payment of the liabilities owing to the NSC secured creditors, and the business operation of the Special Purpose Vehicle (SPV), which shall eventually purchase the NSC plant assets.

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

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

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

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

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

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

Global Steel then filed for arbitration with the Singapore International Arbitration Center on October 13, 2008. Using the arbitration proceedings as the legal excuse, Global Steel sought provisional relief from the Singapore High Court where it prayed that the NSC Secured Creditors be restrained from declaring Global Steel to be in default under the Agreement and from declaring due and payable the balance of the purchase price and all other amounts payable under the Agreement. Global Steel claimed that the

Liquidator and the Secured Creditors failed to deliver title to the NSC plant assets free and clear from all liens since the real property tax lien of the City of Iligan had not been discharged. Thus, Global Steel allegedly could not obtain title to the NSC plant assets and seek additional financing.

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

On May 9, 2012, the Arbitral Tribunal issued the Partial Award (the "Award") in favor of Global Steel and against NSC Liquidator Danilo L. Concepcion and the Secured Creditors. The Award specifically held Danilo L. Concepcion and the Secured Creditors solidarily liable to Global Steel. In sum, the Award ordered Danilo L. Concepcion and the Secured Creditors to pay Global Steel the amount of 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. The majority of the Secured Creditors of Global Steel then filed an application to set aside the Award with the Singapore High Court on July 9, 2012.

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

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

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

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

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

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

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

The dividend income earned by the NDC from its stock investments amounted to P11.390 million for CYs 2023 and 2022.

16. INVESTMENT PROPERTY

The NDC's investment properties consist of 53 real properties with an aggregate area of 32,252,304.26 square meters (sq. m.), three buildings, two residential houses, and one condominium unit located in various cities and municipalities across the country. These properties include land and buildings that are held to earn rentals under operating leases, capital appreciation, and project development. Details are as follows:

Investment Properties with a lease

Location of the Property	**2023**	2022 (As restated)
Land		
Philphos Assets-LIDE	**6,895,600,800**	6,550,820,760
Pandacan, Manila	**2,707,449,300**	2,256,207,750
Isabel, Leyte	**2,527,652,000**	821,486,900
M Fortich/Libona, Bukidnon	**1,588,940,000**	1,601,830,000
Lapu-Lapu City, Cebu	**1,256,900,000**	1,030,660,000
Sen. Gil Puyat, Makati City	**1,072,864,000**	1,065,127,000
Barangka, Mandaluyong City	**607,916,000**	557,130,000
Tordesillas St., Salcedo Village, Makati City	**601,200,000**	571,140,000
Sta. Mesa, Manila	**506,122,110**	1,507,292
P.Tamo & Dela Rosa Sts.,Makati City	**438,880,000**	436,740,000
Pingag Property	**341,020,000**	306,918,000
Bagong Ilog, Pasig City	**209,050,000**	203,530,000
Bugo Dist.,Cagayan De Oro City	**205,279,000**	163,700,000
San Andres & E. Quirino Ave. Manila	**144,980,000**	147,616,000
Lacson & Rizal Sts. Bacolod City	**106,535,000**	104,480,000

Location of the Property	2023	2022 (As restated)
San Roque, Tarlac	**32,920,000**	28,640,000
Aguinaldo & Luna St., Iligan City	**31,840,000**	25,300,000
	19,275,148,210	15,872,833,702
Buildings and Condominium		
Industry & Investment Building	**197,357,760**	209,942,102
NDC Building	**127,405,000**	100,473,000
Manila Luxury Condominium	**15,950,000**	15,824,000
Leyte Port Complex	**925,400**	925,400
	341,638,160	327,164,502
	19,616,786,370	16,199,998,204

Investment Properties without a lease

Location of the Property	2023	2022 (As restated)
Land		
Macapagal Blvd., Pasay City	**6,230,586,000**	6,203,943,000
Sucat, Muntinlupa	**2,161,055,000**	1,740,530,000
Dasmarinas, Cavite	**1,201,230,000**	755,300,000
Toril, Davao City	**798,700,000**	823,663,500
San Juan St. Bacolod City	**401,190,000**	364,240,000
Kamagong & Sampaloc Sts., Makati City	**288,880,000**	285,112,000
Diliman, Quezon City	**202,500,000**	199,462,500
San Dionisio, Paranaque	**73,010,000**	44,920,000
Hermosa, Bataan	**65,000,000**	40,000,000
Meycauayan, Bulacan	**53,880,000**	41,850,000
Sta. Fe, Bantayan, Cebu	**46,080,000**	41,320,000
San Francisco Del Monte, Quezon City	**44,980,000**	39,870,000
Bo. San Juan & Sto. Nino Pampanga	**44,410,000**	38,500,000
Sambag, Cebu	**40,210,000**	36,900,000
Baliwasan, Zamboanga City	**31,550,000**	25,870,000
Los Baños, Laguna	**29,380,000**	29,400,000
Bo. Bia-an, Mariveles, Bataan	**22,880,000**	20,670,000
Dao, Tagbilaran, Bohol	**22,340,000**	18,990,000
San Fernando, Pampanga	**19,160,000**	17,480,000
Bo. Langhian, Butuan City	**13,800,000**	9,860,000
Poblacion, Parang, Cotabato	**12,980,000**	12,980,000
Puerto, Cagayan de Oro City	**11,060,000**	9,390,000
Sta. Rosa, Laguna	**7,610,000**	7,560,000
Suyong, Echague, Isabela	**6,920,000**	6,920,000
Bongabon, Nueva Ecija	**3,765,000**	2,680,000
Bonot, Legazpi City	**3,760,000**	2,880,000
Cagayan de Oro City	**3,010,000**	2,480,000
San Roque, Antipolo City	**2,990,000**	1,494,000
Calatagan, Batangas	**2,600,000**	2,490,000
Tanay, Rizal	**2,260,000**	1,270,000
Mariveles, Bataan	**1,680,000**	1,400,000
San Isidro, Antipolo City	**1,395,000**	780,000
San Jose, Antipolo City	**1,100,000**	1,000,000
Talakag, Bukidnon	**900,000**	810,000
Pueblocillo Village, Dasmarinas Cavite	**714,000**	663,000

Location of the Property	2023	2022 (As restated)
Porac, Pampanga	**380,000**	350,000
	11,853,945,000	10,833,028,000
Residential houses		
San Roque, Antipolo City	**1,260,000**	0
Pueblocillo Village, Dasmarinas Cavite	**247,000**	246,000
	1,507,000	246,000
	11,855,452,000	10,833,274,000
	31,472,238,370	27,033,272,204

The NDC uses the Fair Value Model for its investment properties. Cal-Fil Appraisal and Management, Inc., Value Metrics, Inc., and Toppers Performer Appraisal, Inc., appraised the fair market value of investment properties as of December 31, 2023.

The lease income earned and the operating expenses incurred by the NDC arising from these investment properties are as follows:

	2023	2022 (As restated)
Investment Properties with lease		
Lease income	**223,702,089**	205,065,122
Operating expenses	**25,813,349**	30,488,634
Investment Properties without lease		
Operating expenses	**29,079,183**	28,192,704

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 acquire only the portion of the property with an area of 13,297.97 sq. m. that was directly affected by the ROW of the MMSS3 Project. The acquisition of the remaining areas not covered by the ROW shall be the subject of 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 to 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 Board instructed the Management to conduct a Highest and Best Use (HABU) study for the remaining portion of the subject property. The procurement process for engaging a third-party consulting firm to conduct the HABU study is now underway. On December 22, 2022, the representatives of NDC, TRB, and DPWH met to discuss the NDC Board directives.

The Office of Government Corporate Counsel, under Contract Review No. 334 s. 2024, dated April 18, 2024, and Contract Review No. 398 s. 2024, dated May 9, 2024, has issued favorable reviews on the draft Memorandum of Agreement (MOA) and the Deed of Sale (DOS). Management shall secure the final approval of the NDC Board via referendum to facilitate the execution of the aforesaid documents. Once the necessary approvals are secured, the MOA and the DOS for the directly affected areas will be signed.

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 CY 2015, when the NDC Legal Department went to the court to secure copies of the case records for possible revival of the case, they were informed that the records of the case were no longer available because they were destroyed/damaged due to water exposure.

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

Further, eight investment properties with a fair market value of P291.665 million were occupied by informal settlers. The informal settlers were already occupying the properties when they were assigned to NDC. The majority of these assets were assigned through a Deed of Assignment by the International Corporate Bank. Third-party appraisers appraised these properties as vacant and ready for immediate use and development.

Management remains steadfast in its commitment to addressing the issue of the informal settlers to optimize the value and utility of the subject properties. In line with this, Management shall implement the updated NDC Property Roadmap for 2024 upon approval by the NDC Board. The property roadmap aims to transform, among other things, the NDC's illegally occupied properties into valuable assets that will contribute to the NDC's income and overall strategic goals.

17. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Rizal Hydro-power Plant	Total
December 31, 2023					
Cost					
At January 1, 2023	610,926,741	38,874,121	665,606,186	34,049,808	1,349,456,856
Additions	0	107,834,920	16,125,432	0	123,960,352
Adjustments	(967,858)	0	(436,162)	0	(1,404,020)
At December 31, 2023	609,958,883	146,709,041	681,295,456	34,049,808	1,472,013,188
Accumulated depreciation					
At January 1, 2023	609,130,393	5,636,729	653,911,756	8,836,198	1,277,515,076
Depreciation for the year	291,155	62,215	5,074,472	0	5,427,842
Disposal	0	0	(436,162)	0	
Adjustments	0	0	(25,298)	1,244,064	782,604
At December 31, 2023	609,421,548	5,698,944	658,524,768	10,080,262	1,283,725,522
Net carrying amount, December 31, 2023	**537,335**	**141,010,097**	**22,770,688**	**23,969,546**	**188,287,666**

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Rizal Hydro-power Plant	Total
December 31, 2023					
Cost	610,926,741	38,874,121	665,606,186	34,049,808	1,349,456,856
Accumulated Depreciation/ Adjustment	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**

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.

Buildings & Building Improvements: The additions amounting to P107.835 million pertain to the costs attributable to the site development works for the NDC Industrial Estate project in Brgy. Langkaan, Dasmariñas City, Cavite, charged to the Construction in Progress account.

18. OTHER NON-CURRENT ASSETS

This account consists of:

	2023	2022
Other non-current assets		
Lands not used in operation	**9,794,105**	9,794,104
Prepayments	**3,413,992**	124,455
Deposits	**325,990**	1,972,756
Restricted Fund (held-in-trust)	**0**	15,238,134
Others	**982,971,125**	982,971,125
Allowance for impairment loss	**(968,478,762)**	(968,478,762)
	28,026,450	41,621,812

	2023	2022
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
	28,854,755	42,450,117

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

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

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

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

Others principally includes assets acquired from the former International Corporate Bank (ICB) amounting to P962.110 million through a Deed of Assignment dated September 16, 1983. ICB sold these assets to NDC as a means of rehabilitating the former pursuant to a 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[1]. NDC acquired the rights, titles, and interests of the coal operating project from Vulcan Industrial and Mining Corporation. The project, however, did not commence commercial operations and the account had been outstanding since CY 1980. The amount of the project, which was provided with full allowance for non-recovery, is part of the accounts requested for write-off from the Commission on Audit (COA). Under COA Decision No. 2015-297, dated November 24, 2015, COA denied NDC's request to write off the account in the amount of P42 million.

[1] Coal Development Act of 1976

19. FINANCIAL LIABILITIES

This account consists of:

	2023	2022 (As restated)
Interest payable	**456,620,150**	456,620,150
Loans payable	**140,000,000**	140,000,000
Accounts payable	**42,283,306**	19,480,200
	638,903,456	616,100,350

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

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

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

20. INTER-AGENCY PAYABLES

This account consists of:

	2023	2022
Income tax payable	**9,972,792**	5,582,909
Due to Treasurer of the Philippines	**7,393,324**	7,213,718
Due to Bureau of Internal Revenue (BIR)	**5,435,345**	3,327,773
Due to Government Service Insurance System (GSIS)	**701,637**	628,410
Due to PhilHealth	**79,236**	66,774
Due to Pag-IBIG	**34,271**	28,818
	23,616,605	16,848,402

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

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

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

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

21. TRUST LIABILITIES

This account consists of:

	2023	2022 (As restated)
Current	**11,696,380**	32,192,806
Non-current	**43,006,081**	37,922,385
	54,702,461	70,115,191

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

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 P26.049 million and P9.881 million in calendar years (CYs) 2023 and 2022, respectively.

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

23. PROVISIONS

This account consists of the following:

	2023	2022
Settlement of legal cases	**313,806,761**	310,052,055
Leave benefits	**8,468,610**	6,410,962
	322,275,371	316,463,017

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

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

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

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

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

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

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

Leave benefits pertains to the accrual of the money value of leave credits earned by NDC employees as of December 31, 2023, and 2022, respectively.

24. OTHER PAYABLES

This account represents various unpaid personnel services, terminal leave, claims of former NDC employees who are already retired/resigned, and the provident fund established, which consists of contributions from both employees and employers. It serves as a loan facility and provider of supplementary benefits to its members, amounting to P2.330 million and P0.797 million in calendar years (CYs) 2023 and 2022, respectively.

25. BUSINESS INCOME

This account consists of the following:

	2023	2022 (As restated)
Lease income	**223,702,089**	205,065,122
Interest income	**135,928,663**	79,895,616
Share in profit of associates/affiliates	**29,060,441**	32,808,362
Dividend income	**13,304,348**	16,642,940
Management fees	**140,000**	140,000
	402,135,541	334,552,040

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

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

The lease income earned by the NDC from its investment properties under operating leases amounted to P223.702 million and P205.065 million in CYs 2023 and 2022, respectively. Meanwhile, direct operating expenses consisting of RPT, security services, and repairs and maintenance of the properties incurred from these investment properties amounted to P25.813 million and P30.489 million in CYs 2023 and 2022, respectively (see Note 16).

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

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

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

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

26. GAINS

This account consists of the following:

	2023	2022
Gain from changes in fair value of investment property	**4,430,014,539**	5,300,964,870
Gain on redemption of investments	**14,974,252**	0
Gain on foreign exchange	**1,314,853**	23,487,524
Gain on sale of Investment Property	**0**	5,870,873
	4,446,303,644	5,330,323,267

Gain from changes in fair value of investment property pertains to the net increase in the fair value of investment properties based on the appraisal conducted in CYs 2023 and 2022.

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

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 the Sta. Mesa, Manila property and the Iponan, Cagayan de Oro property in CY 2022.

27. OTHER NON-OPERATING INCOME

This account consists of the following:

	2023	2022
Sale of unserviceable property	**495**	1,383,718
Miscellaneous income	**6,033,189**	6,787,369
	6,033,684	8,171,087

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

Miscellaneous income includes income from assessment charges from lessees.

28. PERSONNEL SERVICES

This account consists of the following:

	2023	2022 (As restated)
Salaries and wages	**30,043,023**	25,736,844
Other compensation	**13,219,776**	8,325,123
Personnel benefit contributions	**4,083,806**	3,562,393
Other personnel benefits	**3,224,526**	2,295,250
	50,571,131	39,919,610

29. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2023	2022 (As restated)
Taxes and licenses	**66,840,308**	51,829,189
General services	**39,596,498**	33,840,424
Professional services	**12,704,779**	14,062,943
Confidential, intelligence and extraordinary	**7,142,585**	2,609,531
Repairs and maintenance	**5,191,496**	4,617,509
Supplies and materials	**4,343,575**	3,623,228
Utility	**3,912,532**	3,398,410
Traveling	**2,181,408**	744,994
Communication services	**986,713**	1,221,818
Training and scholarship	**368,935**	352,084
Other maintenance and operating expenses	**4,840,600**	15,158,515
	148,109,429	131,458,645

30. FINANCIAL EXPENSES

This account consists of the following:

	2023	2022
Interest expenses	**3,754,706**	3,754,706
Bank charges	**171,120**	177,063
	3,925,826	3,931,769

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 banks for manager's checks and treasury bills.

31. NON-CASH EXPENSES

This account consists of the following:

	2023	2022 (As restated)
Depreciation	**4,771,374**	4,034,465
Loss on foreign exchange	**4,179,779**	1,065
Impairment loss	**3,163,665**	13,345,798
Share in the loss of joint venture	**106,259**	2,553,144
Share in the loss of associates/affiliates	**0**	1,935,470
	12,221,077	21,869,942

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

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

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

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

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

32. INCOME TAX EXPENSE

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

	2023	2022 (As restated)
Current	**29,073,922**	27,906,951
Deferred	**1,107,990,971**	1,332,357,625
	1,137,064,893	1,360,264,576

Reconciliation between statutory tax and effective tax is as follows:

	2023	2022 (As restated)
Income tax at statutory rate	**1,159,911,353**	1,365,418,621
Dividend income not subject to income tax	**(3,326,087)**	(4,160,735)
Income subjected to final tax	**(33,805,518)**	(19,485,352)
Share in net income of associates	**(7,265,110)**	0
Other reconciling items	**21,550,255**	18,492,042
	1,137,064,893	1,360,264,576

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

	2023	2022 (As restated)
Deferred tax assets on:		
Allowance for impairment	**614,377,562**	613,744,437
Unrealized foreign exchange gain	**716,232**	(5,871,881)
Deferred tax liabilities on:		
Rental receivables	**(18,137,183)**	(20,256,123)
Interest receivables	**(22,800,789)**	(15,894,386)
Investment property	**(7,633,648,131)**	(6,523,223,385)
Net deferred tax liability	**(7,059,492,309)**	(5,951,501,338)

33. SHARE CAPITAL

This account represents the capital infusion of the National Government (NG) from CYs 1937 to 2002 aggregating P8.600 billion. The NDC has an authorized capital stock of P10 billion, the amount to be subscribed by the NG and to be paid up in accordance with project funding requirements.

34. RESTATEMENT OF ACCOUNTS

The 2022 financial statements were restated to reflect the following transactions/adjustments:

CY 2021 errors discovered in 2022 and 2023

	December 31, 2021 (As previously reported)	Restatements/ Adjustments	January 1, 2022 (As restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net -current	**196,785,650**	**5,266,883**	**202,052,533**
Over accrual of rental receivables		*(151,998)*	
Under accrual of rental receivables		*5,418,881*	
Restatement on total assets-increase		5,266,883	
Financial liabilities	**626,673,299**	**(8,364,781)**	**618,308,518**
Under accrual of salaries, allowances, and benefits		*18,709*	
Under accrual of various maintenance and other operating expenses		*206,600*	
Over accrual of loans and interest		*(8,590,090)*	
Deferred Tax liability	**4,617,494,743**	**1,648,970**	**4,619,143,713**
Under accrual of deferred tax for the year		*1,648,970*	
Trust Liabilities- non current	**40,061,891**	**1,921,954**	**41,983,845**
Over derecognition of security deposits from lessees under long-term lease		*1,921,954*	
Restatement on total liabilities-net decrease		(4,793,857)	
Restatement on statement of financial position-net increase		**10,060,740**	

CY 2022 errors discovered in 2023

	December 31, 2022 (As previously reported)	Restatements/ Adjustments	December 31, 2022 (As restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net -current	**197,217,835**	**5,346,379**	**202,564,214**
Over accrual of rental receivables		*(151,998)*	
Under accrual of rental receivables		*5,846,090*	
Over accrual of interest receivable on money market placements (MMP)		*(371,676)*	
Over accrual of tax on interest receivable on MMP		*23,963*	

	December 31, 2022 (As previously reported)	Restatements/ Adjustments	December 31, 2022 (As restated)
Other current assets	**32,249,669**	**(46,176)**	**32,203,493**
Adjustment on 50 per cent interest in the joint operations with PNOC-RC		*(46,176)*	
Investment in associates/affiliates	**213,995,656**	**32,808,363**	**246,804,019**
Adjustment on investments related to equity share under-investment in associates		*32,808,363*	
Investment property	**27,045,060,679**	**(11,788,475)**	**27,033,272,204**
Adjustment on investment property		*(11,788,475)*	
Restatement on total assets-net increase		26,320,091	
Financial liabilities	**625,201,992**	**(8,304,729)**	**616,897,263**
Over and under accrual of various maintenance and other operating expenses		*9,131*	
Over and under accrual of salaries, allowances and benefits		*276,230*	
Over accrual of loans and interest		*(8,590,090)*	
Deferred Tax liability	**5,948,430,092**	**3,071,246**	**5,951,501,338**
Under accrual of deferred tax for the year		*3,071,246*	
Trust Liabilities- non current	**36,000,431**	**1,921,954**	**37,922,385**
Over-derecognition of security deposits from lessees under long-term lease		*1,921,954*	
Restatement on total liabilities-net decrease		(3,311,529)	
Restatement on the statement of financial position-net increase		**29,631,620**	
STATEMENT OF COMPREHENSIVE INCOME			
Lease income	**204,637,914**	**427,208**	**205,065,122**
Under accrual of rental receivables		*427,208*	
Interest Income	**80,267,290**	**(371,674)**	**79,895,616**
Adjustments on accrual of interest income on MMP		*(371,674)*	
Share in the profit of associates/affiliates	**0**	**32,808,362**	**32,808,362**
Under accrual of share in the profit of associates/affiliates		*32,808,362*	
Personnel Services	**39,662,090**	**257,520**	**39,919,610**
Adjustments on accrual of salaries, allowances and benefits		*257,520*	
Maintenance and operating expenses	**119,891,602**	**11,567,043**	**131,458,645**

	December 31, 2022 (As previously reported)	Restatements/ Adjustments	December 31, 2022 (As restated)
Adjustments on accrual of various maintenance and operating expenses		*11,567,043*	
Non-cash expenses	**21,823,766**	**46,176**	**21,869,942**
Adjustment on 50 per cent interest in the joint operations with PNOC-RC		*46,176*	
Income tax expense-deferred tax	**1,330,935,348**	**1,422,277**	**1,332,357,625**
Adjustment of deferred tax due to restatement of 2022 accounts		*1,422,277*	
Restatement on the statement of comprehensive income-net increase		***19,570,880***	
Total restatement on 2022 financial statements		**49,202,500**	

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

35. RELATED PARTIES

Key Management includes the Board of Directors, all members of Management, and other NDC Officers. Key Management compensation totaled P19.497 million and P12.802 million in CYs 2023 and 2022, respectively. The breakdown of the amounts is as follows:

	2023	2022
Salaries and allowances	**13,646,846**	10,885,428
Other Benefits	**5,850,387**	1,916,471
	19,497,233	12,801,899

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

Pursuant to Republic Act No. 7656, requiring Government-Owned or Controlled Corporations and their subsidiaries to declare dividends under certain conditions and remit the same to the National Government, NDC remitted to the Bureau of the Treasury P89.153 million and P90.445 million in CYs 2023 and 2022, respectively. Similarly, the NDC subsidiaries remitted total dividends of P1.915 million and P4.701 million in CYs 2023 and 2022, respectively, including NDC's share in the dividends.

37. CONTINGENCIES

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

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

The details of NDC pending cases as of December 31, 2023 are as follows:

Title of Case	Nature	Amount	Status
Mero Structures, Inc. vs. Asian Construction FCCC and NDC. (Civil Case No. 02-206 (Regional Trial Court (RTC) Makati, Branch 145).	Sum of money	P5 million	The case is dismissed as far as NDC is concerned. On November 22, 2022, the Office of the Government Corporate Counsel (OGCC) received the RTC Order dated November 14, 2022, granting the Motion for the Issuance of a Writ of Execution. Accordingly, a writ of execution was issued directing the sheriff to Execute the Court's Decision dated July 19, 2022.
NDC vs. JAO & Company. (CA-GR CV No. 50087 Civil Case No. R-81-1226 RTC-Manila, Br. 38).	Sum of money	P7.520 million plus six per cent interest per annum and liquidated five percent damages for the principal obligation and interest.	On May 22, 2015, NDC received the court's Order dated September 22, 2014. The Motion for Execution filed by NDC through counsel was Granted. Waiting for the issuance of the Writ of Execution to

Title of Case	Nature	Amount	Status
			implement the Decision of the Court dated March 20, 1995, which was affirmed in *toto* by the CA in the Decision promulgated on July 28, 2005.
Victoria Corcelles Abunda, et al. vs. NDC, et al. (DARAB Case No. X-678-SC-2000).	Reconveyance	No amount involved as the issue to be resolved is ownership.	As of December 2018, no other related documents have been received. Awaiting Court's Order for submission of position paper.
Liwanag L. Cruz, et al. vs. Juanito F. Galumo and Register of Deeds of South Cotabato. (Civil Case No. 12-4396, RTC-Br. 39, Polomolok, South Cotabato).	Annulment of deed of sale, reconveyance of real properties, damages with prayer for preliminary mandatory injunction	No amount involved as the issue to be resolved is ownership.	RTC issued Order dated November 13, 2023 re: Court considers the Notice of Appeal. On September 7, 2023 received RTC Order dated July 31, 2023, resetting the proceedings of the case on January 29, 2024, 8:30 a.m. On September 4, 2023, OGCC received the Order dated July 11, 2023, noting the Entry of Appearance filed by Atty. Nena Santos, counsel for Defendant Heirs of Juanito F. Galumo. On July 12, 2023, NDC filed a Notice of Appeal with the CA.

Title of Case	Nature	Amount	Status
			On June 29, 2023, the OGCC received the Omnibus Order dated June 6, 2023, denying NDC's Partial Motion for Reconsideration (MR) with Manifestation of the Order dated December 2, 2020. The NDC's Partial MR was denied due course, while DARBCI's Motion for Execution was given due course. On May 2021, OGCC filed its Opposition to Motion for Execution and Reply to DARBCI's Opposition to Partial MR of NDC. On March 31, 2021, DARBCI filed its Opposition for Partial MR of NDC and Motion for Execution of the Notice of Judgment on the Court order dated December 2, 2020. NDC filed a Partial Motion for Reconsideration (MR) praying that the properties be reconveyed instead to NDC. In the Order dated December 2, 2020,

Title of Case	Nature	Amount	Status
			the court granted plaintiff's and DARBCI's Motion for Reconsideration and declared null and void the deed of sale allegedly executed by Cruz in favor of Galumo and the properties to be reconveyed to DARBCI.
Primo Gelacio vs. And Luzviminda Gelacio-Bahala v. NDC-Guthrie Plantations, Inc. & NDC Civil Case Nos. 560 & 561 GR No. 138736 (CA-GR CV No. 43924).	For recovery of possession with damages and attorney's fees.	P100,000, more or less (principal only).	On November 10, 2018, the Court issued a Writ of Execution, a copy of which was received by NDC on December 11, 2018. To date, no other related documents have been received.
NDC represented by its Asst. General Manager, Esmeraldo E. Sioson vs. DAR, represented by its Provincial Agrarian Reform Officer (PARO) Pedro P. Gumbao, et al. (DARAB Case No. 10999. Reg. Case No. XI-608-SC-99).	Reconveyance	No amount involved as the issue to be resolved is ownership.	On September 17, 2020, OGCC received a copy of the Supreme Court's (SC) July 13, 2020 resolution noting the comments of Dolefil Agrarian Reform on NDC's MR dated July 11, 2018, and waiting for the comments of respondents DAR and Register of Deeds of south Cotabato on NDC's MR.
NDC vs. DAR & LBP. (Civil Case No. 7172 RTC-Branch I, Balanga, Bataan) LBP vs. NDC. (CA-GR-SP No. 99765 15th Division).	Determination of just compensation	P2.737 million	SC remanded the case to RTC to determine just compensation.

Title of Case	Nature	Amount	Status
Heirs of Pacabis vs. NDC. (Civil Case No. 3442-0 Br. 35, Ormoc City).	Determination of just compensation	Per the Commissioner's Report, P40 per square meter involving 80,000 sq. m. or approximately P3.200 million (principal only).	The plaintiffs filed a Motion to Withdraw as counsel of the Plaintiffs dated August 4, 2023, for Execution of Judgment. On March 23, 2023, OGCC received the March 9, 2023 Order. The Court found no basis to reconsider its Order dated March 12, 2021. The MR filed by NDC was denied. The Court ordered a Writ of Execution to be issued.
NDC vs. Commissioner of Internal Revenue (CIR). [Department of Justice (DOJ) Case No. 91-06]/	Refund of taxes	P0.660 million.	It was submitted for the DOJ's resolution. OGCC has yet to receive the CIR's resolution.
NDC vs. Hon. Jim O. Sampulna, in his capacity as Regional Executive Director of Department of Environment & Natural Resources (DENR), Region XII, Koronadal City, Sps. Valencia. CA-GR SP No. 02444 [Ildefonso Tabiling (Dec) (now Enriqueta Montaño) s. Pascual Boada, NDC represented by its GR or President and DOLE Phils.). RED	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.

Title of Case	Nature	Amount	Status
CLAIM NO. 038-2003 CENRO CLAIM NO. 84 LOT NO. 13-Gss-390]			
Mateo Rubio et al. vs. DOLE Phils., et al. (DARAB Case No. XII-1067-SC-2009).	For Declaration of Nullity of Transfer, Recovery of Possession Cancellation of Title of Lot No. 65 (1161) PLS 247-D	No amount is involved, as ownership is to be resolved in this case.	Last pleading filed on August 20, 2009: NDC filed its answer with Compulsory Counterclaim. As of June 11, 2012, no further court order or related pleadings have been received.
Teodora Denila vs. NDC/DOLE, DARBCI (RTC Br. 36, Gen San City)		- P2.541 million as back rentals - Rental from 1996 up to the present - 20 per cent Attorney's fees	The CA ordered the Appellants to file their respective briefs. Awaiting further instructions from CA.
Philippine Associated Smelting and Refining Corp. (PASAR) v. NDC Case No. R-ORM-09-00009-CV RTC-Br. .35 Ormoc City CC R-ORM-15-00078-CV	For quieting of title with prayer for temporary restraining order and/or writ of preliminary injunction	No amount involved as the issue to be resolved is ownership.	Put on hold. PASAR paid arrears. Filed Manifestation and Compliance (with the Order dated March 17, 2023) on May 12, 2023. On March 16, 2023, OGCC received the copy of the Order (Constancia) dated February 17, 2023; the hearing set on February 17, 2023, was canceled and re-set to March 17, 2023 at 8:30 a.m. On January 31, 2023, OGCC, through handling

Title of Case	Nature	Amount	Status
			counsel, filed its Urgent Ex-Parte Motion to Reset the Hearing scheduled for February 17, 2023. Filed Urgent Ex-Parte Motion to Reset Hearing on January 31, 2023 On January 25, 2023, OGCC received the Notice of Hearing dated January 3, 2023, setting the hearing date of the Motion on February 17, 2023, at 8:30 a.m. On January 9, 2023, OGCC received a copy of PASAR's Motion for Partial Reconsideration dated December 15, 2022 of the Decision dated July 1, 2022. On December 5, 2022, the RTC's Decision dated July 1, 2022 was received. NDC filed a Partial Motion for Reconsideration on December 20, 2022. PASAR also moved for reconsideration of the court's decision.

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

38. GENDER AND DEVELOPMENT (GAD)

The NDC allotted P85.190 million for the GAD program for the calendar year 2023. The NDC undertook various activities, but only P102,620 was utilized during the year.

39. SUPPLEMENTARY INFORMATION ON TAXES

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

a. Taxes and licenses (National and Local):

Real estate tax	35,371,807
Mayor's Permit	1,595,657
Community tax certificate	10,500
Annual registration-BIR	500
	36,978,464

b. Withholding taxes paid:

Tax on compensation	5,213,694
Creditable withholding taxes	12,473,317
	17,687,011

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The faithful representation of the recorded Investment Property amounting to P31.472 billion was not obtained due to: a) the inclusion of a property declared as a Wilderness Area with a Fair Market Value (FMV) of P46.080 million; and b) eight investment properties with a FMV of P291.665 million, occupied by illegal settlers/ occupants, were not appraised in accordance with the provisions of Philippine Financial Reporting Standards (PFRS) 13 and Philippine Accounting Standard (PAS) 40.

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

1.2 Paragraph 15 of PAS 1 requires that financial statements present an entity's financial position, financial performance, and cash flows fairly. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Conceptual Framework for Financial Reporting.

1.3 The Revised Conceptual Framework for Financial Reporting defines an asset as a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits. Moreover, recognition is the process of capturing for inclusion in the statement of financial position an item that meets the definition of an asset, a liability, or equity. Recognition thereof provides users of Financial Statements with information that is both relevant and faithfully represented.

1.4 National Development Company's (NDC's) Investment Property account consists of 53 real properties located in various cities and municipalities across the country, with an aggregate area of 32,252,304.26 sq. m., and recorded at FMV amounting to P31.472 billion as of December 31, 2023.

a) Inclusion of a property declared as a Wilderness Area with a FMV of P46.080 million.

1.5 NDC recognized a vacant property in Sta. Fe Bantayan, Cebu with a FMV of P46.080 million and with an aggregate area of 5,297 sq. m. as investment property. Per Register of Lands/Acquired Assets (Register of Lands, for brevity) as of December 31, 2023, provided by Management, the subject property was covered by Presidential Proclamation (PP) No. 2151, series of 1981[1], and is not declared as alienable and disposable. Under the said proclamation, the subject property was declared as Wilderness Areas wherein entry, sale, settlement, exploitation of whatever nature or forms of disposition, subject to existing recognized and valid private rights, if any, is prohibited.

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

1.6 Moreover, this property is included in the National Integrated Protected Areas System[2] (NIPAS), thus, utilization or disposal of the property is limited under certain conditions. Section 18 of Republic Act (RA) No. 11038 provides:

> *"Section 18. Section 20 of Republic Act No. 7586 is hereby amended to read as follows:*
>
> > *"Sec. 20. Prohibited Acts. - Except as may be allowed by the nature of their categories and pursuant to rules and regulations governing the same, the following acts are prohibited within protected areas:*
> >
> > *(a) to (m) Xxx.*
> > *(n) Occupying or dwelling in any public land within the protected area without clearance from the PAMB;*
> > *(o) Constructing, erecting, or maintaining any kind of structure, fence or enclosure, conducting any business enterprise within the protected area without prior clearance from the PAMB and permit from the DENR, or conducting these activities in a manner that is inconsistent with the management plan duly approved by the PAMB;*
> > *(p) to (v) Xxx."*

1.7 Paragraph 7 of PAS 40 provides that investment property is held to earn rentals, for capital appreciation or both. Considering the above, the subject property does not meet the criteria of an investment property. Also, subject property should not be included in the annual appraisal and valuation of NDC's properties. Thus, recognition of such as investment property is improper.

1.8 Further, under NIPAS, there is a <u>general management planning</u> strategy that serves as a guide in formulating individual plans for each protected area. Thus, activities that are outside the scope of the <u>management plan</u>, as provided by the Department of Environment and Natural Resources (DENR) or its attached agencies, shall be subject to an environmental impact assessment. In this regard, although Management stated that there is a lease proposal in the subject property, it is prudent to determine whether this activity conforms with the <u>general management plan</u> for the Bantayan Island.

1.9 Considering the limitations/restrictions/conditions provided under NIPAS in the utilization of the protected areas, the subject property in Sta. Fe, Bantayan Island is generally not alienable and disposable unless conditions to utilize thereof are met. Thus, recognition of such as investment property is not in accordance with the provisions of PAS 1 and 40.

1.10 In view of the foregoing, we recommended that Management explain the recognition of the Sta. Fe Bantayan, Cebu Property as an investment property.

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

1.11 Management stated that the property is included in NDC's List of Properties for Lease, and per tax declaration, the land's actual use is categorized as Commercial 2. Further, Management apprised the Audit Team that the Asset Management Group received an offer from a private entity to lease the property, which was presented to and approved by the Management Committee. Thus, Management maintained its position that since the property is subject to ongoing lease negotiation, it is recognized and recorded as an investment property.

1.12 The Audit Team emphasized that while the Sta. Fe, Bantayan Cebu Property is under NIPAS; it is generally not alienable and disposable unless conditions to utilize thereof are met. Although there is an ongoing negotiation for its lease, coordination with the DENR or any of its attached agencies is imperative before engaging in any activities to determine the extent/limitations of activities that may be allowed in the area, considering that the property is declared as a wilderness area.

b) Eight investment properties with a FMV of P291.665 million, occupied by illegal settlers/occupants, were not appraised in accordance with the provisions of PFRS 13 and PAS 40.

1.13 NDC owned eight investment properties with an aggregate area of 69,071 sq. m. that are occupied by illegal settlers. Details are presented hereunder:

Table 1 - Properties with illegal settlers

Property	Area (in sq. m.)	FMV (in Php)
San Dionisio, Parañaque City	1,426	73,010,000
Bo. San Pedro Hermosa, Bataan	54,892	65,000,000
Los Baños, Laguna	8,901	50,735,000
San Francisco del Monte, Quezon City	623	44,980,000
Sambag District, Cebu City	613	40,210,000
Bo. Dolores, San Fernando, Pampanga	1,139	12,300,000
San Nicolas, San Fernando, Pampanga (Fernandino lot)	600	3,300,000
San Felipe, San Fernando, Pampanga	877	2,130,000
Total	**69,071**	**291,665,000**

1.14 Paragraph 40 of PAS 40 provides that when measuring the fair value of investment property in accordance with PFRS 13, an entity shall ensure that the fair value reflects, among other things, rental income from current leases and other assumptions that market participants would use when pricing investment property under current market conditions.

1.15 Further, Paragraph 11 of PFRS 13 provides that when measuring fair value, an entity shall consider 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. Such characteristics include, for example, the condition and location of the asset and restrictions, if any, on the sale or use of the asset.

1.16 A review of the appraisal report of each property showed that the independent appraiser, despite noting that the land had either several structures/shanty houses of informal settlers or commercial buildings, the appraiser for the purpose of this appraisal, disregarded the presence of these structures and appraised the subject properties as if vacant and ready for the immediate use and development. The presence of structures/occupants, whether illegal or not, on the subject properties would influence the market value. Further, relocation of illegal settlers/occupants or demolition of illegal structures entails cost. Thus, the resulting FMV is doubtful.

1.17 On the other hand, Paragraph 75 (g) of PAS 40 requires an entity to disclose information on the existence and amounts of restrictions on the realizability of investment property, among others. A review of the Notes to Financial Statements pertaining to the Investment Property account showed that no disclosure was made to present the conditions of the subject properties.

1.18 Non-compliance with the provisions set forth in PFRS 13 and PAS 40 regarding the valuation and disclosure of eight investment properties of NDC affects the fair presentation of the Investment Property account in the Financial Statements.

1.19 We recommended that Management:

a. **Determine and assess the valuation of NDC's eight properties occupied by illegal settlers, with due consideration to the provisions of PFRS 13 and PAS 40 and provide necessary disclosures;**

b. **Facilitate re-appraisal of the subject properties with an independent appraiser; and**

c. **Revisit the procurement process in acquiring an independent appraiser, specifying the expected outputs and conditions to be included in the Terms of Reference/Contract, among others.**

1.20 Management commented that it has contracted appraisal companies to inspect and value all its investment properties. Thus, Management relied on the expertise of these appraisers to provide the correct value of the subject properties.

1.21 On the other hand, Management acceded with the recommendation to provide the necessary disclosures in the Notes to Financial Statements on the conditions of the subject properties.

1.22 The Audit Team emphasized that PFRS 13 establishes a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. It is worth noting that Management disclosed this provision in Note 3 to the Financial Statements as a basis in the preparation of Financial Statements.

1.23 For instance, inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly are considered in Level 2 inputs. Moreover, the condition or location of the asset is a factor in adjusting

Level 2 inputs. Although the appraisers used the market approach as a valuation technique, they explicitly disregarded the observable condition of the subject properties, which had illegal settlers/occupants and unauthorized structures. According to financial reporting, such cases should be considered in the valuation.

1.24 Moreover, the Audit Team stressed that Management should specify in the Terms of Reference/Contract the scope of work or conditions to be considered in valuing the subject properties to establish its fair market value.

2. **The faithful representation of the Current Receivables account amounting to P231.247 million, net of allowance for impairment, could not be ascertained due to variances noted in the Rental Receivable account, amounting to P7.984 million, between the balances per NDC records and confirmation results.**

2.1 This is a reiteration of prior years' audit observations with updated information.

2.2 Paragraph 15 of PAS 1 requires that financial statements present an entity's financial position, financial performance, and cash flows fairly.

2.3 As of December 31, 2023, the Current Receivable account has an outstanding balance of P491.362 million, with an allowance for impairment amounting to P260.115 million, leaving a net balance of P231.247 million. Of the total outstanding balance, P72.490 million pertains to the Rental Receivable account.

2.4 The Audit Team, through the Accounting Unit (AU) of NDC, sent 56 confirmation letters to various lessees of NDC to verify the correctness of the recorded Rental Receivable balance. Of the total confirmation letters sent, 12 lessees responded, five accounts of which showed unreconciled variances totaling P7.984 million. A summary of the results of confirmation is shown below:

Table 2 - Results of Confirmation

Lessee	Balance per Schedule	Balance per Confirmation	Variance (Absolute Value)
Lepanto Mining Corporation	4,022,352.19	4,866,848.70	844,496.51
LIDE Management Corporation	7,503,844.76	10,680,192.37	3,176,347.61
Al Amanah Islamic Bank of the Phils.	120,167.61	0.00	120,167.61
Senate of the Philippines	12,838.97	0.00	12,838.97
Panay Railways, Inc.	5,078,316.00	8,908,955.97	3,830,639.97
			7,984,490.67

2.5 Analysis and review of records of the above lessees in NDC's books of accounts for rental receivables revealed the following observations, as presented on the next page:

Table 3 – Analysis of Variances

Lessee	Remarks
Lepanto Mining Corporation	Beginning in May 2020, the lessee defaulted on its rental payments until the expiration of its contract in April 2022. In previous years' confirmation, Management informed that it coordinated with the lessee to reconcile the accounts. However, the variance remained unreconciled, and the lessee still has outstanding rental obligations.
LIDE Management Corporation	An inquiry with the AU disclosed that this account is still being reconciled with the lessee.
Al Amanah Islamic Bank of the Phils.	The variance pertains to the long outstanding balance in NDC's books of accounts for more than ten years.
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 is still completing/gathering all necessary supporting documents.
Panay Railways, Inc.	In Calendar Years (CYs) 2020 and 2021, the lessee confirmed a balance of "0," while no confirmation was received in CY 2022. However, in CY 2023, the lessee confirmed an outstanding balance of P8.909 million.

2.6 The presence of unreconciled variances in the rental receivables account creates uncertainty on the correctness and reliability of the recorded balance in NDC's books of accounts; thus, the faithful representation under Paragraph 15 of PAS 1 could not be ascertained.

2.7 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 respective lease contracts; and

c. Coordinate with the representatives of Al Amanah Islamic Bank of the Philippines, Senate of the Philippines, Panay Railway, Inc., and all other lessees from prior years' confirmations with variance in their balances to reconcile and settle their long outstanding accounts.

2.8 Management commented that the AU periodically monitors the accrual of each account and coordinates with the lessees if there are any discrepancies against their accounts.

Table 4 – Management Remarks

Lessee	Variance	Remarks
Lepanto Mining Corporation	844,496.51	The variance includes Real Property Taxes amounting to P323,048.95 and Value-Added Tax amounting to P521,448.05. NDC will send a collection letter to the lessee.
LIDE Management Corporation	3,176,347.61	NDC will coordinate with the lessee to reconcile the variance.
Al Amanah Islamic Bank of the Phils.	120,167.61	The amount represents unpaid rentals. The AU, in coordination with the Treasury Unit, will send a follow-up letter and supporting documents to collect the account.
Senate of the Philippines	12,838.97	The account is considered dormant, and a write-off will be requested.
Panay Railways, Inc.	3,830,639.97	The amount represents unpaid rentals. The AU, in coordination with the Treasury Unit, will send a follow-up letter and supporting documents to collect the account.

2.9 Management also commented that they send billing statements every month to each lessee to collect their accounts. The applicable penalties and interest are also applied to their outstanding balances based on the terms of their contracts.

2.10 Lastly, Management has been coordinating with the lessees to follow up on the settlement of their accounts. This includes sending demand/collection letters and communicating through emails and phone calls.

2.11 The Audit Team acknowledges Management's efforts to maintain its records and books of accounts properly. However, it is imperative for Management to facilitate the reconciliation of records between NDC and its lessees, specifically those accounts that were held unreconciled for several years, to ascertain faithful representation of the Current Receivables account in the financial statements.

3. The faithful representation of the recorded Property and Equipment (PE) amounting to P188.288 million was not attained due to: a) continuous recognition of both disposed and undisposed unserviceable PE in the books of accounts of NDC; b) inclusion of fully depreciated PE which was reported as missing items in the Report on Physical Count of Property, Plant, and Equipment (RPCPPE); c) Non-recognition of impairment for intangible assets; and d) PE items were considered "counted" in the RPCPPE but were recorded in the books of accounts of NDC as miscellaneous items without a detailed breakdown.

3.1 This is a reiteration of the prior years' audit observations with updated information.

3.2 As previously discussed, PAS 1 states that fair presentation of financial statements 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 for Financial Reporting.

3.3 Audit of NDC's PE account for CY 2023 disclosed the following:

a) Continuous recognition of both disposed and undisposed unserviceable PE in the books of accounts of NDC

3.4 Paragraph 67 of PAS 16 states that the PE shall be derecognized on disposal or when no future economic benefits are expected from its use.

3.5 As of December 31, 2023, NDC has PE with a total cost of P1.463 billion and accumulated depreciation of P1.273 billion, or a carrying amount of P189.422 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 below:

Table 5 – 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**

3.6 In CY 2023, the unserviceable items reported under the Inventory and Inspection Reports of Unserviceable Property (IIRUP) dated December 15, 2022 and July 19, 2023, were subsequently disposed of through bidding and awarded on January 16, 2023, and August 18, 2023, respectively.

3.7 Although these items were already sold and delivered to the buyer, and the proceeds were booked as miscellaneous income, the derecognition of these items from NDC's books of account was not effected contrary to the provisions of PAS 16.

3.8 Further, per the NDC RPCPPE dated December 31, 2023, P1.560 million worth of unserviceable PE, inclusive of disposed and undisposed items, is still included in the inventory count. As of December 31, 2023, the Administrative Unit (AdU) has yet to submit an updated IIRUP.

b) Inclusion of fully depreciated PE, which was reported as missing items in the RPCPPE

3.9 The Revised Conceptual Framework for Financial Reporting defines an asset as a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits. Moreover, recognition is the process of capturing for inclusion in the statement of financial position an item that meets the definition of an asset, a liability, or equity. Recognition thereof provides users of Financial Statements with information that is both relevant and faithfully represented.

3.10 Review of the RPCPPE dated December 31, 2023, disclosed that PE amounting to P7.234 million were not found during the inventory count. These items were noted to be fully depreciated. Details are as follows:

Table 6 – Summary of Missing PE Items

Account Number	Account Name	Amount
10605030	Information and communication technology equipment	5,260,222
10606010	Motor vehicles	1,335,977
10605020	Office equipment	494,005
10607010	Furniture and fixtures	143,303
Total		**7,233,507**

3.11 Inquiry with the AdU personnel revealed that the missing PE items indicated in the RPCPPE are due to the absence of proper turnover during the reorganization of NDC in CY 2003. The AdU has yet to submit an accountability report for these items.

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

3.13 If such is not the case, the PU shall be responsible for determining the person/s accountable for non-existing/missing PE items. The accountable person/s shall be required to produce/present the items. In the case where accountability cannot be established despite diligent efforts, the Head of the Agency shall conduct an investigation to determine the last known location of the missing PE item. If the accountable person was determined liable after the investigation, the demand should be made upon the personnel. Otherwise, NDC may request authority to derecognize the missing PE items from the books of accounts.

c) <u>Non-recognition of impairment for intangible assets.</u>

3.14 PAS 38 defines an Intangible Asset as an identifiable non-monetary asset without physical substance. Such an asset is identifiable when it is separable or when it arises from contractual or other legal rights. Separable assets can be sold, transferred, licensed, etc. Examples of intangible assets include computer software, licenses, trademarks, patents, films, copyrights, and import quotas. An intangible asset with a finite useful life is amortized and is subject to impairment testing. An intangible asset with an indefinite useful life is not amortized but is tested annually for impairment.

3.15 Additionally, 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 such indication exists, the entity shall estimate the recoverable amount of the asset.

3.16 Under the RPCPPE dated December 31, 2023, the line items of Computer Software under Other PPE are presented on the next page:

Table 7 – Computer Software Breakdown

Details	Unit Value
Computer software	486,161
Supply and delivery of crimping tool and Windows server	39,916
Sonic wall software and hardware license upgrade with support	105,093
Total	**631,170**

3.17 We have noted that no impairment was recorded for the Computer Software account. Based on our inquiry, no impairment policies are established for intangible assets. The absence of impairment assessment for qualified assets undermines the reliability of the reported balance of the account.

d) PE items were considered "counted" in the RPCPPE but were recorded in the books of accounts of NDC as miscellaneous items without a detailed breakdown;

3.18 Review of the submitted RPCPPE by Management disclosed that several line items with a total amount of P7.071 million and carrying amount of P0.631 million had no detailed particulars and were described only as Miscellaneous items. Details are presented below:

Table 8 – Accounts with Miscellaneous Line Items Without Detailed Breakdown

Account Number	Account Name	Cost	Accumulated Depreciation	Carrying Amount
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	999,050	999,050	0
Total		**7,071,411**	**6,440,240**	**631,171**

3.19 In CY 2022, the aggregate cost of miscellaneous items presented in the Financial Statements was P15.602 million, which was reduced by P8.530 million after Management was able to identify and provide a detailed breakdown of these items.

3.20 The Audit Team emphasized that the presence of these items in the RPCPPE, which were tagged as "counted" but without a detailed breakdown, undermines the reliability of the said report and the verifiability of the balance of the account in the books of accounts. Also, the condition and existence of these items cannot be ascertained due to the absence of information on their specifications, location, and the transaction from where the item originated.

3.21 For financial information to be useful, it must be relevant and a faithful representation of the transactions it pertains to. The omission of relevant information and/or inclusion of unnecessary or non-value information lessens the credibility of financial information.

3.22 Given the foregoing, we recommended that Management:

a. Direct the AU to derecognize the unserviceable PE items in the books of accounts upon disposal or when no future economic benefits are expected from its use;

b. Prepare an updated IIRUP for CY 2023 and instruct the Disposal Committee to undertake immediate disposal of the remaining idle and unserviceable PE items;

c. Based on the list of non-existing/missing PE items in the RPCPPE prepared by the AdU, investigate to determine accountability over the missing PE items;

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

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

f. Instruct the AU to establish/adopt an impairment policy, conduct an impairment test on all Intangible assets, and provide the corresponding allowance, if warranted.

3.23 Management commented that necessary journal entries were prepared to derecognize the sold PEs and to record the allowance for impairment of intangible assets. Also, the AdU was instructed to prepare the list of non-existing/missing PE items, including the persons accountable for the missing PE items.

3.24 As regards the one-time cleansing of PPE accounts, the AU and AdU will coordinate and request to derecognize non-existing/missing PE items once all the requirements are gathered and completed.

3.25 Lastly, Management commented that the miscellaneous items were recorded prior to the 1990 Computerized Accounting System of NDC with no detailed breakdown, and these assets have only a one-peso net book value in the books of accounts of NDC. Management will include these items in the one-time cleansing of PPE.

3.26 The Audit Team will monitor Management compliance with the guidelines on the disposition of non-existing/missing PE items under COA Circular No. 2020-006. Additionally, we stress the importance of establishing an impairment policy to obtain a standardized application and proper measurement of asset accounts.

4. The faithful representation of the Non-Current Receivables account, net of allowance for impairment losses, amounting to P79.111 million, was not obtained due to accounts that have remained dormant and outstanding in NDC's books of accounts for more than ten years.

4.1 This is a reiteration of prior years' audit observations with updated information.

4.2 Paragraph 15 of PAS 1 requires that financial statements present an entity's financial position, financial performance, and cash flows fairly. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Conceptual Framework for Financial Reporting.

4.3 Further, Section 2.0 of COA Circular No. 2023-008[3] dated August 17, 2003, provides the purpose of Proper Disposition of Dormant Accounts, to wit:

> *"This Circular is issued to prescribe the guidelines and procedures on the proper disposition of all dormant accounts of NGAs, LGUs and GCs not covered by specific laws, rules and regulations, amending COA Circular No. 2016-005, and to fast track the cleansing of dormant accounts of government agencies for the fair presentation of accounts in the financial statements."*

4.4 Furthermore, Section 5.6 of COA Circular No. 2023-008 dated August 17, 2003, defines dormant receivables accounts as accounts in which balances remained inactive or non-moving in the books of accounts for ten years or more, and where settlement/collectability could no longer be ascertained. Also, Section 6.2 of the same COA Circular states that all government entities shall determine the existence of dormant accounts in their books of accounts.

4.5 Moreover, the same COA Circular provides:

> *"6.3 When accounts are non-moving for ten (10) years or more, the Head of Accounting Unit shall prepare the following schedules, for monitoring purposes, to be submitted to their respective Audit Team Leader (ATL)/Regional Supervising Auditor (RSA)/Supervising Auditor (SA):*
>
> *a. Schedule of Dormant Receivables, Unliquidated Cash Intra/Inter-Agency Fund Transfers **(Annexes 1-3)**; and*
>
> *b. Schedule of Other Dormant Accounts **(Annex 4)**.*
>
> *6.4 The entity shall determine whether the dormant accounts identified are covered by specific laws, rules and regulations prescribing*

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

guidelines for the proper disposition and/or procedures to address the issue on dormancy.

6.5 If the dormancy of an account cannot be addressed through Item 6.4 above, then the entity shall apply the procedures prescribed by this Circular."

4.6 Audit of the Non-Current Receivables account amounting to P2.277 billion, with allowance for impairment losses amounting to P2.197 billion, leaving a net balance of P79.111 million, disclosed that the following receivables have remained dormant/ non-moving for more than ten years as of December 31, 2023. These dormant accounts have an aggregate outstanding balance of P1.240 billion, which were provided with 100 per cent allowance for impairment. Details are shown below:

Table 9 - Schedule of Dormant Receivable Accounts

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

4.7 Of the amount stated above, the Audit Team noted that P1.237 billion represents advances and loans granted to its subsidiaries/associates/affiliates, which were either dissolved or inactive for several years. Meanwhile, the amount due from the NG represents expenses accompanying the NDC's transferred accounts to the NG, which consists of loans, equity investments, advances, acquired assets, and other assets and liabilities that were identified and approved for transfer to the latter pursuant to Administrative Order (AO) No. 64[4], s. 1988, dated March 24, 1988. Accordingly, the transfer of accounts contemplated in the said AO shall take effect on March 31, 1987. However, the collectability of these accounts is deemed remote. Thus, Management provided 100 per cent allowance for impairment.

4.8 This observation was raised in prior years' audits, and the Audit Team recommended that Management request authority from the COA to write off these dormant receivable accounts. However, the Audit Team returned several requests from Management due to incomplete or lacking supporting documents. The Audit Team required the submission of the history of each dormant account.

4.9 Despite the extensive efforts of the Accounting and Treasury Units', to locate the necessary documents, no records were found. Thus, Management resolved that 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. Thus far, Management has yet to file a request for authority to write-off.

[4] Approving the Identification of and Transfer to the National Government of Certain Assets and Liabilities of the Philippine Export and Foreign Loan Guarantee Corporation and the National Development Company.

4.10 On the other hand, the Schedule of Dormant Receivable Accounts was not prepared and submitted by Management to the Audit Team, contrary to Section 6.3 of COA Circular No. 2023-008.

4.11 In view of the above, Management must comply with COA Circular No. 2023-008 to present accounts fairly in the financial statements. However, this should not be interpreted that NDC is condoning/extinguishing the obligation of the accountable officer/debtor. Management should still exhaust all possible means to recover and monitor these long overdue/outstanding accounts.

4.12 We reiterated our prior years' recommendation that Management require the AU, in coordination with its Legal Department, to refile a request for authority to write off dormant accounts with the COA, duly supported with required documents, pursuant to COA Circular No. 2023-008 on the proper disposition/closure of dormant accounts.

4.13 Further, we recommended and Management submitted to the Audit Team the Schedule of Dormant Receivables, Unliquidated Cash Advances, and Intra/Inter-Agency Fund Transfers in compliance with the COA Circular.

4.14 Management commented that they have required the AU, in coordination with the Legal Department, to refile a request for write-off of dormant accounts with COA in compliance with the new COA Circular No. 2023-008 dated August 17, 2023. Considering the newly released COA Circular, there are significant amendments from the old COA Circular No. 2016-005 dated December 19, 2016, which were followed by NDC from its previous request to write off dormant accounts.

4.15 Management, considering that the COA Circular No. 2023-008 was issued for the purpose of one-time cleansing of all dormant accounts covered therein, aims to conduct a thorough and exhaustive investigation in determining the list of dormant accounts. Currently, the AU is gathering new documents.

4.16 In light of COA Circular No. 2023-008, the Audit Team would like to remind Management to carefully study the procedures and requirements to facilitate its request for write-off and comply with the purpose of the said COA Circular, thus obtaining a fair presentation of its Non-Current Receivable account.

5. The faithful representation of the Inter-Agency Payables amounting to P23.617 million was not attained due to unreconciled variance of NDC's payable to the Commission on Audit (COA) amounting to P13.002 million.

5.1 This is a reiteration of prior years' audit observations with updated information.

5.2 Paragraph 15 of PAS 1 requires that financial statements present an entity's financial position, financial performance, and cash flows fairly. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Conceptual Framework for Financial Reporting

5.3 On July 18, 2023, the Officer-in-Charge of the Finance Office, Planning, Finance, and Management Sector (PFMS) of the COA sent a Statement of Account (SOA) to NDC as of July 12, 2023. The SOA showed a balance of P28.177 million, which included the cost of audit for the CY 2023 amounting to P7.961 million. The payment made by NDC amounting to P7.782 million in March 2023 for the cost of audit for the CY 2022 was not yet reflected in the said SOA.

5.4 Considering these factors and based on the summary of assessments, remittances and balances from COA-PFMS, NDC has unremitted cost of audit amounting to P20.395 million as of December 31, 2023. However, in the books of accounts of NDC, its payable to COA was only P7.393 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:

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

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

iii. 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.

5.6 The Audit Team noted that the assessment billed by COA was based on the budget estimates prepared by the Team assigned in NDC, while NDC paid the cost of audit services based on the actual cost incurred for a specific year. Since the difference was not reconciled or adjusted, variances amounting to P11.869 million accumulated from CYs 1990 to 2018.

5.7 In the CY 2019 audit on NDC, the Audit Team communicated the issue of unremitted cost of audit services through an Audit Observation Memorandum, which was subsequently reiterated in CY 2022. 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 any. However, NDC has not yet reconciled the variance with COA-PFMS and/or remitted any balance.

5.8 Inquiry with the Accountant disclosed that the AU was able to retrieve supporting documents for COA Audit fees for CYs 2000 to 2018 and is still in the process of locating the pertinent documents for CYs 1990 to 1998. Once completed, they will coordinate and reconcile with the Finance Office, COA-PFMS.

5.9 The presence of unreconciled variance casts doubts on the reliability of the account balance as of the reporting period, affecting the fair presentation of the financial statements.

5.10 We reiterated our prior years' recommendations that Management:

a. Require the AU 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;

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; and

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

5.11 Management commented that the AU requested COA-PFMS for a copy of all billing statements from CYs 1990 to 2018 for NDC to identify the variances and reconcile them with its books of accounts. Meanwhile, the AU was able to retrieve the supporting documents for CYs from 1994 to 2018 while locating the remaining documents for CYs 1990 to 1993 is ongoing.

5.12 The Audit Team acknowledges Management's efforts to gather prior years' documents to substantiate its records. However, it is imperative for Management to act expeditiously and reconcile with COA-PFMS to ascertain NDC's outstanding obligation so that it can obtain faithful representation of inter-agency payables in the financial statements.

B. OTHER OBSERVATIONS

6. The prolonged negotiation/finalization between NDC and the Toll Regulatory Board (TRB) of the compensation price on the negotiated sale of the 13,297.97 square meters (sq. m.) portion of the Pandacan property affected by the Right-of-Way (ROW) of the Metro Manila Skyway Stage 3 (MMSS3) Project, with an offer amounting to P757.984 million since calendar year 2018, deprived NDC of funds that could be used for its operations.

6.1 This is a reiteration of the prior years' audit observations with updated information.

6.2 NDC owns a property located at Tomas Claudio St., Pandacan, Manila with an area of 50,137.95 sq. m. and a fair market value of P2.582 billion as of December 31, 2023. A portion of the subject property measuring 13,297.97 sq. m. was affected by the ROW of the MMSS3 Project, which was completed in January 2021. As a result, the subject property was subdivided into three irregularly shaped pieces of land.

6.3 On February 12, 2018, the NDC Management recommended to its Board of Directors (BOD) the approval of the negotiated sale with the Department of Public Works and Highways (DPWH) for the latter's acquisition of a portion of the Pandacan Property. Initially, 11,109.49 sq. m of the entire property will be affected by the MMSS3 Project. Subsequently, an additional 2,188.48 sq. m. was included as a requirement for the alignment to the North Luzon Expressway-South Luzon Expressway Connector Road (NSCR) Project.

6.4 However, during the Board meeting, the Department of Finance (DOF) Secretary suggested that the entire Pandacan Property should be sold instead of only the portion needed for the ROW since the value of the remaining parcels of land will greatly diminish as the property will no longer be viable for commercial purposes. Thus, the NDC BOD instructed the Management to offer the entire property for sale instead.

6.5 On June 14, 2018, TRB, the project's implementing agency, presented 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 Land Bank of the Philippines (LBP) appraisal. NDC presented its counter-offer, selling the entire Pandacan Property instead of just the affected ROW.

6.6 On March 8, 2022, TRB sent a formal letter-offer to NDC for the acquisition of 13,297.97 sq. m portion of the Pandacan Property at a price of P57,000 per sq. m., based on the appraised value of the 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 by filing a petition for expropriation of the subject property.

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

6.8 On March 29, 2022, during the meeting with the principals and their respective representatives, the following matters were discussed:

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

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

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

iv. TRB committed to provide pertinent documents to DOF and NDC.

6.9 Subsequently, TRB requested NDC to issue a Permit to Enter (PTE), to continue the works for the MMSS3 connection to the NSCR 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 just compensation for the same. Accordingly, no response has yet been received from TRB regarding the matter.

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

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

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

6.11 In a letter dated February 2, 2023, the NDC General Manager apprised the TRB of the latest NDC BOD directives on the subject property. The following were proposed to be included in the MOA:

i. 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.;

ii. NDC's acceptance of the above-mentioned payment is without prejudice to the agreement that the government will acquire the entire property and will pay just compensation for the remaining 36,839.98 sq. m.;

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

iv. 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

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

6.12 In a letter dated June 5, 2023, DPWH presented its position that it does not need to be a party in the MOA since TRB is the project's lead implementing agency and one of the main parties involved in the related documents for the conveyance of properties affected by the MMSS3 Project.

6.13 In a letter dated June 14, 2023, TRB officially transmitted the revised draft MOA to NDC, where the latter reviewed and incorporated its comments. The same were discussed with the TRB in a meeting held on July 5, 2023. Salient provisions of the MOA are as follows:

i. The immediate payment to NDC of just compensation for the acquisition of the 13,297.97 sq. m. portion of the Pandacan Property, which was directly affected by the ROW of the MMSS3 Project;

ii. TRB's facilitation of the acquisition of the remaining areas of the subject property; and

iii. NDC will issue the necessary PTE for the NSCR Project upon execution of the MOA.

6.14 An inquiry with the Legal Department disclosed that the final draft of the MOA, including Deeds of Absolute Sale (DAS), between NDC and TRB was submitted to the Office of the Government Corporate Counsel (OGCC) on March 26, 2024, for review and comments.

6.15 On the other hand, the NDC BOD instructed Management to conduct a Highest and Best Use (HABU) Study for the Pandacan property. Salient preliminary findings based on the draft HABU Study, as presented in Minutes of NDC Board Meeting dated July 7, 2023[5], are as follows:

i. The value of the remainder of the property was impaired due to the construction of the Skyway. The remaining portion, with an aggregate area of 36,839.98 sq. m., was fragmented into three irregularly shaped areas, making it more difficult to develop. Moreover, the area susceptible to development is estimated to be only about 60 per cent or less of the remaining areas in view of the distance requirement from the Skyway Structures;

ii. The Skyway Structures brought about height restrictions and accessibility issues. NDC cannot build structures taller than the skyway on the remaining portions. There is only one road access point through one of the fragmented portions;

iii. Without air rights underneath the viaduct/skyway to serve as ingress and egress for the remaining portions of the property, the two fragmented portions will not have road access; and

iv. Market value of the remaining portion of the Pandacan Property was reduced to P50,000 per sq. m. from the current zonal value of P53,000 per sq. m.

6.16 As a result, Management maintained the position of the NDC BOD to sell the entire property to the TRB. While negotiations for the acquisition of the remaining portion are ongoing, Management will pursue the execution of the MOA for immediate payment for the portion directly affected by the ROW of the MMSS3 Project. Meanwhile, Management shall still consider exploring available options to maximize the economic benefits of the subject property pending the sale.

6.17 Considering the lapse of more than five years from the start of negotiations in calendar year (CY) 2018 and the fact that the project has already been completed and operational since July 2021, the TRB's concessionaire is benefitting from the completed project; meanwhile, the compensation of the ROW traversing NDC's property is still unresolved. Thus, this is contrary to the purpose of the State Policy of ensuring that the owners of real property acquired for national government infrastructure projects are promptly paid just compensation.

6.18 In all aspects of the above circumstance, NDC is deprived of funds from the sale of 13,297.97 sq. m., which could be used for its operation, and lost business opportunities for the remaining 36,839.98 sq. m. Moreover, the pre-termination of existing lease agreements of NDC emanating from the negotiation on ROW for the MMSS3 Project resulted in the loss of guaranteed lease income on the subject property.

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[5] The Audit Team requested a copy of the final HABU Study. However, Management has yet to provide one.

6.19 Regarding the unauthorized occupation of former NDC lessees, who were also the contractors/concessionaires of MMSS3, Management disclosed that they are in constant communication with the contractors/concessionaires through TRB to demand compensation for the use of NDC's property.

6.20 We reiterated our prior years' recommendations that Management:

a. Coordinate with TRB to expedite the execution of MOA for the immediate resolution of the issues on the right-of-way acquisition of the Pandacan property and the corresponding just compensation thereof; and

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

6.21 Management commented that OGCC has issued favorable reviews on the draft MOA and DOS under Contract Review No. 334 s. 2024, dated April 18, 2024, and Contract Review No. 398 s. 2024, dated May 9, 2024, respectively. Accordingly, the Management shall secure the final approval of the NDC BOD via referendum to facilitate the execution of MOA and DOS. Once the necessary approvals are secured, the signing of the MOA and the DOS for the directly affected areas will proceed.

6.22 As regards the unauthorized use of property of project contractors, Management commented that they already raised the issue to TRB and San Miguel Corporation (SMC) representatives. SMC clarified that the occupation of the contractors is only within the footprints of the Skyway Project, which is the subject of the acquisition of the TRB/SMC. Management, on the other hand, stated that, pending the actual acquisition, the property is still owned by NDC. Hence, NDC is entitled to the collection of back rentals for the unauthorized use of the property. The TRB and SMC committed in sending a formal settlement offer to NDC on the matter based on the result of their discussion among their principals.

6.23 In addition, one of SMC's subcontractors who occupied a portion of the Pandacan Property, Dumduma Construction and Trading Corporation, offered to lease a 300 sq. m. portion of the property that will be used as a staging/repair area for equipment used in the Project for one year.

6.24 The Audit Team will monitor the progress of the disposal of the subject property and request that Management apprise the Audit Team of the status of the MOA and DOS with TRB.

7. Several NDC investment properties are either idle/vacant, occupied by illegal occupants, or underutilized, depriving NDC of potential income while incurring Real Property Taxes (RPT) and Security Services expenses aggregating to P29.079 million in CY 2023.

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

7.2 NDC's Investment Property account consists of 53 real properties located in various cities and municipalities across the country, with an aggregate area of 32,252,304.26 sq. m., and recorded at a Fair Market Value of P31.472 billion as of

December 31, 2023. These properties are held for the purpose of earning rentals, capital appreciation, or both.

7.3 Of the 53 properties, 17 were leased to various lessees and generated income amounting to P223.702 million, while it incurred operating expenses amounting to P25.813 million as of December 31, 2023. Meanwhile, NDC incurred operating expenses amounting to P29.079 million to maintain and secure the remaining 36 properties, which were either idle/vacant and/or occupied by illegal settlers.

7.4 On December 11 to 13, 2023, an ocular inspection was conducted on several NDC investment properties. The inspectorate team is composed of representatives from the NDC and the Audit Team. The following properties were observed to be either idle/vacant and/or occupied by illegal settlers, as discussed hereunder:

Table 10 - Properties inspected in CY 2023

Location	Area (in sq. m.)	FMV
Bo Bia-an Mariveles, Bataan	2,000	1,680,000
Bo-Alas-Asin Mariveles Bataan	10,071	11,080,000
Bo Batangas II Mariveles Bataan (Lot 1)	621	990,000
Bo Batangas II Mariveles Bataan (Lot 2)	2,928	4,680,000
Bo Batangas II Mariveles Bataan (Lot 3)	4,125	6,120,000
Bo. San Pedro Hermosa, Bataan	54,892	65,000,000
Aurea Subd., San Nicolas San Fernando, Pampanga	340	1,430,000
Fernandino Sudb., San Nicolas, San Fernando, Pampanga	600	3,300,000
San Felipe, San Fernando, Pampanga	877	2,130,000
Bo. Dolores, San Fernando, Pampanga	1,139	12,300,000
Porac, Pampanga	480	380,000
Calatagan, Batangas	1,131	2,600,000
Pueblocillo Village, Dasmariñas, Cavite	102	714,000

7.5 *Barangay Bia-an, Mariveles, Bataan.* The inspectorate team was able to find the general location of the property site; however, the team was not able to determine its boundaries as it is within a woodland with small to medium-sized trees and shrubs.

7.6 Per inquiry with a former barangay councilor, who claims to be a member of the Indigenous Cultural Communities (ICCs)/Indigenous Peoples (IPs), he alleged that the subject property is possibly located within the Ancestral Domain/Lands or area generally belonging to ICCs/IPs.

7.7 According to the Asset and Management Group they are still determining whether the property is included in the Ancestral Domain/Lands. Assuming, however, that the same was found true, this property will be covered under Sections 5 and 56 of Republic Act No. 8371[6] dated October 29, 1997, as provided on the next page:

[6] An Act To Recognize, Protect And Promote The Rights Of Indigenous Cultural Communities/ Indigenous Peoples, Creating A National Commission On Indigenous Peoples, Establishing Implementing Mechanisms, Appropriating Funds Therefor, And For Other Purposes.

"SECTION 5. Indigenous Concept of Ownership. — Indigenous concept of ownership sustains the view that ancestral domains and all resources found therein shall serve as the material bases of their cultural integrity. The indigenous concept of ownership generally holds that ancestral domains are the ICC's/IP's private but community property which belongs to all generations and therefore cannot be sold, disposed or destroyed. Xxx.

SECTION 56. Existing Property Rights Regimes. — Property rights within the ancestral domains already existing and/or vested upon effectivity of this Act shall be recognized and respected."

7.8 Thus, this property would be included in the National Integrated Protected Areas System (NIPAS), thereby limiting, if not restricting, its utilization or disposal under certain conditions. Considering the restrictions on properties included in the NIPAS, the subject property may not meet the criteria of an investment property as defined in Paragraph 1.7 above.

7.9 Notably, the subject property is near a private resort, and according to the former barangay councilor, a private company has several projects in the area. The inspectorate team decided not to proceed/inspect the area due to lack of information on the exact location and for safety and security reasons.

7.10 *Barangay Alas-asin, Mariveles, Bataan.* The property consists of 30 parcels of land sporadically located within the supposed Montebillona Village.

7.11 Inquiry with the local neighborhood revealed the location of the village where the subject property is situated. The team noticed the remnants of the village gate, which were allegedly torn down by several informal settlers residing therein. However, due to the terrain and lack of information on the exact location of the NDC properties inside the village, the inspectorate team decided to inspect the surrounding areas instead to at least determine the general condition of the village. Also, the team observed that, aside from the squatted areas, a large portion of the area is still vacant.

7.12 Further, per the Register of Lands, the subject properties are purportedly intended for acquisition by the Department of Public Works and Highways as Right-of-Way for the Bataan-Cavite Bridge Project.

7.13 *Barangay Batangas II, Mariveles, Bataan.* The property is composed of three sites, all irregular in shape and flat terrain. Sites 1 and 3 have an average elevation along the same grade as the Roman Super Highway, while Site 2 has an average elevation slightly lower than the Highway.

7.14 The NDC representative disclosed that prior to the pandemic, with the aid of the Local Government Unit (LGU), Site 3 was considered by a school administration as a site for possible school expansion. However, due to the pandemic and changes in the school and local government administrations, the planned school expansion did not push through. Per Register of Lands, the property is included in the Inventory List submitted to the Department of Human Settlements and Urban Development

(DHSUD) for the Pambansang Pabahay for Filipino Program pursuant to Executive Order (EO) No. 34, series of 2024[7].

7.15 *Barangay Mabuco, Hermosa, Bataan.* The NDC representative disclosed that the property was surveyed and inspected by Management prior to the pandemic, and informal settlers situated therein were informed that the area they are occupying is NDC property.

7.16 Notably, the subject property had a small number of concrete houses belonging to informal settlers, while a large portion of the property is still vacant. An inquiry with the residents disclosed that they are aware that the land is owned by NDC. The NDC representative averred that the residents may be assisted to enter into a Community Mortgage Program (CMP) of the Social Housing Finance Corporation (SHFC). However, per the Register of Lands, the property is included in the inventory list submitted to DHSUD.

7.17 *Barangay Nicolas, San Fernando City, Pampanga (Aurea Lot).* The property is a vacant grassy lot in a residential area. However, a one-story concrete house is located within the boundary of the subject property.

7.18 *Barangay Nicolas, San Fernando City, Pampanga (Fernandino Lot).* The subject property has a small number of concrete houses belonging to informal settlers, while a portion of the property is vacant and being used as an easement or as a parking lot. Inquiry with the neighborhood disclosed that they were informed by a certain individual that the property was owned by someone from Metro Manila and that they were allowed/authorized by some authorities to reside therein. Moreover, ocular inspection showed that even the proposed diversion road in the vicinity, which should be the boundary of contiguous lots, had a small number of dwellings belonging to informal settlers.

7.19 *Barangay San Felipe, San Fernando City, Pampanga.* The subject property has two-story concrete houses belonging to informal settlers, while a portion of it is vacant. The inspectorate team decided not to inquire with the residents for safety and security reasons.

7.20 Based on the Status Report of International Corporate Bank Acquired Land Assets as of December 31, 2023, the CMP process was stalled due to the absence of a qualified mobilizer in the area who will handle the SHFC-CMP process.

7.21 *Barangay Dolores, San Fernando City, Pampanga.* The inspectorate team was not able to reach the subject property, as the entry points to the location were blocked by gates/fences. Nonetheless, the condition of the property was viewed using Google Maps. It is apparent from the latter that the property has several concrete structures, including a basketball court, a one-story facility, and a concrete stage.

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[7] Declaring The Pambansang Pabahay Para Sa Pilipino Program As A Flagship Program Of The Government, And Directing All National Government Agencies And Instrumentalities, Including Government-Owned Or -Controlled Corporations, And Local Government Units, To Submit A Detailed Inventory Of All Available And Suitable Lands For The Implementation Of The Program

7.22 *Barangay Manibaug, Pasig, Porac, Pampanga.* The inspectorate team decided not to proceed to the location of the subject property due to the unavailability of the Barangay Captain and other personnel, who were supposed to accompany the team. Nonetheless, per the Register of Lands, the property is included in the inventory list submitted to DHSUD.

7.23 *Barangay Sambungan, Calatagan, Batangas.* The inspectorate team requested tax mapping of the property from the Office of the Municipal Assessor, Municipal Hall of Calatagan. Personnel from the said Office also assisted the team in locating the subject property using Google Maps; however, the property cannot be specifically identified.

7.24 The team was advised that the area may not be safe for them to proceed alone and that personnel from Barangay Sambungan were not available to assist and guide them. Thus, the inspectorate team decided not to proceed to the location.

7.25 Based on the Register of Lands, the property has informal settlers. In previous years' inspection, the inspectorate team observed that the two parcels of the lot were planted with "palay" by two individuals. Management sought assistance from the LGU of Calatagan, Batangas, as regards the unauthorized farming on the property. Accordingly, the farmers will be instructed to vacate the property; otherwise, NDC will resort to legal remedies and demand compensation for the illegal occupancy of the subject property.

7.26 *Pueblocillo Village, Barangay Langkaan II, Dasmariñas, Cavite.* The subject property in Pueblocillo Village is a foreclosed property previously owned by a former NDC employee. During the ocular inspection, residents were present, and the village guard also confirmed this.

7.27 On the other hand, several properties were inspected by the Audit Team in prior years. Details and status of the properties are presented hereunder:

Table 11 – Comparative Status of Inspected Investment Properties

Property	Status (during 2016-2019 inspections)	Status per Register of Land (as at December 31, 2023)
Pureza St. Sta. Mesa, Manila	With illegal occupants.	With pending case. Undergoing lease negotiation on the warehouse area.
Kamagong & Sampaloc Sts., Makati City	For disposal.	With a current lease agreement.
North Ave., Quezon City	With a lease agreement for 502.45 sq. m of the property.	With a lease agreement until December 14, 2023.
San Francisco Del Monte Quezon City	No title. Awaiting Order of Finality Judgement; With illegal settlers. For CMP.	For reconstitution of title. With illegal settlers.
Sucat, Muntinlupa City	Will undergo arbitration.	Negotiation for arbitration was put on hold.
San Dionisio, Paranaque City	No title. With pending case; With illegal occupants.	No title. With a commercial building. Management is working

Property	Status (during 2016-2019 inspections)	Status per Register of Land (as at December 31, 2023)
		out a plan to revive pending case.
Meycauayan, Bulacan	No title. Vacant.	Marketing of property for lease or project development.
National Highway,Barangay Tagapo, Sta. Rosa, Laguna	Undergoing lease negotiations.	Lease negotiation is still ongoing since the property has some issues.
Los Baños, Laguna	Under Presidential Proclamation (PP) No. 550, s. 2004.	With informal settlers; Under PP No. 550, s. 2004.
Bonot, Legaspi City	No title.	No title.
Sta. Fe, Bantayan, Cebu	Under PP No. 2151, s.1981	Under PP No. 2151, s.1981
Sambag District, Cebu City	With illegal occupants.	Marketing of property for lease or project development. With illegal occupants.
LIDE Isabel, Leyte (Pasar Housing)	No title; Partly occupied with illegal settlers.	NDC is the listed Survey Claimant of the Cadastral Lot. With lease agreement.
Langihan District, Butuan City	No title; For government-to-government sale.	Included in the inventory list submitted to DHSUD. No title.
Talakag, Bukidnon	No title; For disposal.	No title
Barangay Macasandig, Cagayan de Oro City	For disposal.	Vacant residential lot.
Barangay Puerto, Cagayan de Oro City	No title; With illegal settlers whereas organized association was formed. For CMP.	No title; With illegal settlers whereas organized association was formed. For CMP.
San. Juan St. Barangay 3, Bacolod City Negros Oriental (Sto Niño Boulevard)	Vacant	Marketing of property for lease or project development.
Barangay Daliao, Toril, Davao City	With illegal occupants.	For project development. Five hectares of the total area is under usufruct with the local government unit.

7.28 Section 2 (a) and (b) of Republic Act (RA) No. 10149[8] or the GOCC Governance Act of 2011, provides:

> *"Section 2. Declaration of Policy.—The State recognizes the potential of government-owned or -controlled corporations (GOCCs) as significant tools for economic development. It is thus the policy of the State to actively exercise its ownership. rights in GOCCs and* ***to promote growth by ensuring that operations are consistent with national development policies and programs****.*

[8] An Act to Promote Financial Viability and Fiscal Discipline in Government-Owned or -Controlled Corporations and to Strengthen the Role of the State in its Governance Management to Make Them More Responsive to the Needs of Public Interest and for Other Purposes, (https://lawphil.net/statutes/repacts/ra2011/ra_10149_2011.html)

Towards this end, the State shall ensure that:

Xxx

(b) The operations of GOCCs are rationalized and monitored centrally in order that ***government assets and resources are used efficiently and the government exposure to all forms of liabilities including subsidies is warranted and incurred through prudent means;***

Xxx" (emphasis supplied)

7.29 Further, Sections 1 and 3 of RA No. 7656[9] state:

"SECTION 1. Declaration of Policy. – It is hereby declared the policy of the State that in order for the National Government to realize additional revenues, government-owned or -controlled corporations, without impairing their viability and the purposes for which they have been established, shall share a substantial amount of their net earnings to the National Government.

SEC. 3. Dividends. – All government-owned or -controlled corporations shall declare and remit at least fifty percent (50%) of their annual net earnings as cash, stock, or property dividends to the National Government. This section shall also apply to those government-owned or -controlled corporations whose profit distribution is provided by their respective charters or by special law but shall exclude those enumerated in Section 4 hereof, Provided, That such dividends accruing to the National Government shall be received by the National Treasury and recorded as income of the General Fund."

7.30 The state recognizes GOCCs as a significant tool for economic development. Thus, it established the Governance Commission for GOCCs to promote the growth of GOCCs and to ensure that the operations are consistent with national development policies and programs. Also, it ensures that government assets and resources are used efficiently.

7.31 Further, GOCCs generally perform proprietary functions for the government and is expected to generate income and contribute to the public coffers. Thus, it is incumbent upon all GOCCs to maximize their full potential and generate income to share a substantial amount [at least fifty per cent (50%) of their annual net earnings] with the National Government.

7.32 The NDC, with its 36 non-income generating investment properties, is not using its assets and resources efficiently to the disadvantage of the government. It not only deprives the NDC of potential income; it also burdens the NDC with the incurrence of operating expenses. The efficient utilization of said properties would produce

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[9] An Act Requiring Government-Owned or -Controlled Corporations to Declare Dividends under Certain Conditions to the National Government, and for Other Purposes

economic benefits to NDC, and it would, at the very least, mitigate or cover the necessary expenses in maintaining the subject properties.

7.33 **In view of the foregoing, we recommended that Management:**

a. **Determine whether Brgy. Biaan, Mariveles, Bataan property is within the Ancestral Domain/Lands or belonging to Indigenous Cultural Communities (ICCs)/Indigenous Peoples (IPs). Apprise the Audit Team on the status thereof;**

b. **Coordinate with the Department of Public Works and Highways regarding the property in Brgy. Alas-asin, Mariveles, Bataan affected by the Bataan-Cavite Project, and to facilitate negotiation for a possible sale of the subject property;**

c. **Coordinate with the LGU and the school administration with reference to the Brgy. Batangas II, Mariveles, Bataan property, and determine whether Site 3 can still be pursued for possible school expansion;**

d. **Coordinate with the LGUs to take necessary and appropriate actions against illegal settlers/occupants on NDC properties. Issue a notice/demand to immediately vacate the property or resort to any legal means available to NDC. Otherwise, collect compensation therefrom;**

e. **Promote and advertise all idle/vacant properties to attract prospective lessees and/or buyers. Otherwise, study other options available to NDC for the best and most productive use of the properties; and**

f. **Coordinate with DHSUD for NDC properties eyed for the Pambansang Pabahay for the Filipino Program.**

7.34 **Further, we recommended and Management agreed to submit a Semestral Status Report to the Audit Team regarding Management's monitoring of NDC properties and provide detailed and updated information on it.**

7.35 Management commented that they will conduct the necessary research on the Brgy. Biaan, Mariveles, Bataan Property to determine whether it belongs to the ICCs/IPs. Once the necessary information has been obtained, Management shall evaluate the best option for the NDC.

7.36 As regards Brgy. Alas-asin, Mariveles, Bataan Property, Management commented that they will properly coordinate with the agencies concerned in relation to the property affected by the government project.

7.37 Regarding other properties, Management commented that they will evaluate their status and take appropriate action as may be determined by Management and the NDC Board of Directors.

7.38 The Audit Team emphasized that Management intensify its efforts in converting these land assets into income-generating properties, explore alternative uses for the properties not suitable for commercial purposes or project development, and expedite the selling of properties that are for disposal.

8. **Eight investment properties amounting to P203.990 million with an aggregate area of 19,546 sq. m., acquired by NDC either through dividend, donation, or assignment, remained unregistered despite the lapse of four decades, exposing government assets to legal risks and/or loss of the actual property.**

8.1 Review of the NDC Register of Lands showed that NDC has eight investment properties that are not titled under its name. Based on available documents, summary, and details on the status of each property are discussed hereunder:

Table 12 - List of Untitled Properties

Property	Date of Acquisition	Mode of Acquisition	Area (in sq. m.)	Fair Market Value 2023
San Dionisio, Parañaque City	September 16, 1983	Assigned asset - International Corporate Bank (ICB)	1,426	73,010,000
Meycauayan, Bulacan	July 17, 1984	Property Dividend - Crowntex Realty Corp. (CRC)	5,231	53,880,000
San Francisco Del Monte Quezon City	September 16, 1983	Assigned Asset - ICB	623	44,980,000
Languihan District, Butuan City	May 22, 1975	Donation - Mobil Oil Philippines, Inc. (MOPI)	6,933	13,800,000
Brgy. Puerto, Cagayan de Oro City	December 18, 1976	Donation - Philippine Packing Corporation (PPC)	3,352	11,060,000
Bonot, Legazpi City	September 16, 1983	Assigned Asset - ICB	400	3,760,000
Calatagan, Batangas	September 16, 1983	Assigned Asset - ICB	1,131	2,600,000
Talakag, Bukidnon	September 16, 1983	Assigned Asset - ICB	450	900,000
Total			**19,546**	**203,990,000**

8.2 <u>San Dionisio, Parañaque City Property.</u> The property consists of four contiguous lots with an aggregate area of 1,426 sq. m and covered by four Transfer of Certificates of Title (TCTs), all issued in favor of Asia Pacific Finance Corporation. Meanwhile, NDC acquired the subject property from ICB pursuant to the Deed of Assignment dated September 16, 1983. Per the ocular inspection conducted by the inspectorate team in calendar year (CY) 2022, composed of NDC and COA representatives, there is a three-story commercial building and a three-unit townhouse on the subject property.

8.3 Per Note 16 to the Financial Statements, said property has a pending case of unlawful detainer filed by the ICB against Marita M. Alegre et al. Management considered the possible revival of the case; however, records of the case are no longer available in the archives of the Metropolitan Trial Court of Parañaque Branch 78 because these were destroyed/damaged due to water exposure.

8.4 Per inquiry with the NDC Management, records from Tax Mapping show that the subject property is currently registered under the name of Love Jean B. Tee, who also happens to possess a consolidated title. Further, records indicate that the property was transferred by the Alegres to Ms. Tee.

8.5 *Meycauayan, Bulacan Property.* The subject property consists of a parcel of land with an area of 5,231 sq. m. and is covered by one TCT issued in favor of CRC. NDC acquired the subject property through a property dividend from CRC on July 17, 1984.

8.6 *San Francisco Del Monte, Quezon City Property.* The subject property consists of a parcel of land with an area of 623 sq. m. and is covered by one TCT issued in favor of Marcos Chua. NDC acquired the subject property from ICB pursuant to the Deed of Assignment dated September 16, 1983. Based on the Register of Lands as of December 31, 2023, the property has informal settlers.

8.7 NDC requested reconstitution of the title since the Registry of Deeds (RD) – Quezon City was razed by fire in 1988, and the original title was presumed to have been destroyed with it. The Certificate of Finality of Judgment by the Regional Trial Court (RTC), Branch 14, Quezon City, was issued on March 4, 2024, granting the Petition of NDC for the Reconstitution of the original TCT No. 69615.

8.8 Management requested a certified copy of the RTC documents for submission to the RD, Quezon City as the basis for the latter to issue the reconstituted title. Upon submission of documents, the RD shall correspondingly issue the reconstituted title upon payment of assessed registration fees. Thereafter, Management will process the transfer of the TCT in NDC's name.

8.9 *Languihan District, Butuan City Property.* The subject property consists of a parcel of land with an area of 6,933 sq.m. and is covered only by a Tax Declaration under NDC's name. NDC acquired the subject property through a donation from MOPI on May 22, 1975.

8.10 Management is currently consolidating all the required documents for filing a Petition for Original Land Registration in Court.

8.11 *Brgy. Puerto, Cagayan de Oro City Property.* The subject property consists of a parcel of land with an area of 3,352 sq. m. and is covered only by a Tax Declaration under NDC's name. NDC acquired the subject property through a donation from PPC on December 18, 1976.

8.12 Management is currently consolidating all the required documents for filing a Petition for Original Land Registration in Court. Further, based on the Register of Lands, the property has informal settlers.

8.13 *Bonot, Legazpi City Property.* The subject property consists of two adjoining lots with an aggregate area of 400 sq. m. and is covered by two TCTs issued in favor of Continental Bank (CB). NDC acquired the subject property from ICB pursuant to the Deed of Assignment dated September 16, 1983.

8.14 Management informed the Audit Team that CB is the predecessor of the ICB. The property is one of the assets assigned by ICB to NDC in 1983. However, Management secured a certification dated May 27, 2022, from the Bangko Sentral ng Pilipinas (BSP), stating that CB is not among the financial institutions supervised or registered with the BSP. Thus, BSP does not have any records and/or information on whether CB is the predecessor of ICB.

8.15 Management presented to the Bureau of Internal Revenue (BIR), Revenue District Office (RDO) No. 47, Legazpi City the proof of ICB payment of documentary stamp in 1999. Likewise, Management paid the withholding taxes as part of the prerequisite for processing the Certificate Authorizing Registration (CAR). However, NDC needs to submit additional documents requested by BIR RDO No. 47, showing the transition of the property from CB to ICB. Thereafter, the CAR will be submitted to the RD – Legazpi City to transfer the title to NDC's name.

8.16 _Calatagan, Batangas Property._ The subject property consists of two adjoining lots with an aggregate area of 1,131 sq.m. and is covered by two TCTs issued in favor of Willen Kho. NDC acquired the subject property from ICB pursuant to the Deed of Assignment dated September 16, 1983. Based on the Register of Lands, the property has informal settlers.

8.17 The processing of the transfer of title was stalled due to the unavailability/absence of supporting documents required by the BIR for the issuance of the CAR, i.e., no records on file of the 1984 Tax Declarations at the Municipal and Provincial Assessor's Office, and lack of appropriate transfer documentation from Willen Kho to ICB, among others.

8.18 _Talakag, Bukidnon Property._ The subject property consists of a parcel of land with an area of 450 sq. m. and covered by a TCT issued in favor of the ICB. NDC acquired the subject property from ICB pursuant to the Deed of Assignment dated September 16, 1983.

8.19 The above-mentioned properties show that the titling process of most of these are still ongoing despite NDC acquiring these assets several decades ago. Further, aside from the Deed of Assignment, the documents held by NDC are still in the name of the previous/original owners. Thus, the subject properties are exposed to legal risks such as possible land disputes, third-party claims, and the proliferation of more informal settlers, which may eventually lead to the loss of the actual property.

8.20 The same audit observation has been raised in prior years' audits, and the Audit Team persistently recommended that Management take appropriate action to expedite the titling of these subject properties. However, no significant progress/improvement in the titling process has been observed.

8.21 We reiterated our previous years' recommendation that Management exert utmost effort to expedite the titling of lands under NDC's name.

8.22 Management commented that most of the assets mentioned above, especially those that are assigned assets of ICB, have complications. For instance, some of the TCTs are registered under the name of CB, the predecessor of ICB. The Deed of Assignment executed in September 1983 by the ICB in favor of NDC failed to mention that Continental Bank is ICB's predecessor. Management has tried to search for documents acceptable to the RD that would confirm the connection and relationship of CB with the ICB, to the extent of requesting a certification from the BSP, but to no avail.

8.23 Nonetheless, Management commented that as a supplemental measure of protection and to ensure that third parties are made aware of NDC's rights and claims over the properties, Management has commenced the registration of the pertinent instruments evidencing NDC's ownership and rights over the properties with the RD.

8.24 The Audit Team maintained its position that Management expedite the titling of these lands to reaffirm its ownership over these properties through titling/registration under NDC's name. Moreover, the subject properties are exposed to legal risks such as possible land disputes, third-party claims, and the proliferation of more informal settlers; titling thereof will secure these properties against unwarranted cases.

9. Despite several extensions, the site development works for the NDC Industrial Estate (NDCIE) Project, located in Barangay Langkaan II, Dasmariñas City, Cavite, with a contract amount of P171.737 million, have yet to be completed.

9.1 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 calendar days commencing upon receipt of the Notice to Proceed by the contractor on February 16, 2022, and ending on August 9, 2023.

9.2 The Project covers the supply of labor, equipment, and materials for the construction of site development works, including 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.

9.3 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 to secure business and development permits for the project. Consequently, NDC in its letter dated May 24, 2022, instructed the contractor to suspend work operations and obtain the necessary permits.

9.4 Eventually, the contractor complied and submitted all the required documents to the City Government of Dasmariñas. The development permit for the project and WERR's business permit to conduct business in Dasmariñas City were granted on January 17 and 24, 2023, respectively. On January 25, 2023, construction activities resumed.

9.5 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, which was further extended until January 30, 2024, due to the contractor's request for a Variation Order.

9.6 When this issue was raised by the Audit Team in a prior year's Audit Observation Memorandum (AOM), Management replied that the Special Projects Group and NDC's consultants were not informed by the Local Government Unit (LGU) regarding the need for the contractor to secure a business permit from the LGU. Additionally, Management commented that Section 6.4 of the Instruction to Bidders stated that it is the sole responsibility of the prospective bidder to determine all matters related to the execution and implementation of the project.

9.7 Considering the magnitude of the Project, it is crucial to exercise due diligence in securing all necessary permits and actively monitor and address any issue that may arise throughout the project's implementation. NDC, as the procuring entity, is responsible for overseeing and ensuring the Contractor's compliance with all relevant regulations and specific requirements necessary for the smooth implementation of the project to avoid unnecessary delays.

9.8 Further, on May 15, June 5, and 12, 2023, soil erosion occurred at the area of the proposed Drainage Outfall and Road 2 of the Project, causing further delay. NDC, in its letter to the contractor dated August 23, 2023, suspended indefinitely all works that were directly affected, which may compromise the safety of workers, equipment, and structures, including the construction of the Administration Building.

9.9 Analysis of the preceding event and inquiry with NDC personnel showed that the Soil and Foundation investigation was not sufficiently carried out. It should be noted that the Site/Field, Soil, and Foundation Investigation is among the activities included in the preparation of Detailed Engineering Design (DED) for infrastructure projects. It is in these aspects that the design consultant will be able to determine the terrain, soil, and foundation condition of the whole area to come up with a comprehensive design specifically for the planned horizontal development, building structures, and other improvements to be constructed. Section 17.6 of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184[10] provides that:

> *"No bidding and award of contract for Infrastructure Projects shall be made unless the detailed engineering investigations, surveys and designs, for the project have been sufficiently carried out and duly approved in accordance with the standards and specifications prescribed by the HoPE concerned or his duly authorized representative, pursuant to the recommendation of the end-user or implementing unit and in accordance with the provisions of Annex "A"40 of this IRR."*

9.10 Moreover, Items 1, 2, and 3. b of Annex A – Detailed Engineering for the Procurement of Infrastructure Projects of the 2016 RIRR of RA No. 9184 states that:

> *"1. Detailed engineering shall proceed only on the basis of the feasibility or preliminary engineering study made which establishes the technical viability of the project and conformance to* ***land use and zoning guidelines*** *prescribed by existing laws. The findings contained in the feasibility study, if undertaken for the project, shall be examined. If, in the course of this exercise, it is found that changes would be desirable in the design standards of principal features, as proposed, specific recommendations for such changes shall be supported by detailed justifications, including their effects on the cost, and (if necessary) the economic justification.*

[10] RA No. 9184 – Government Procurement Reform Act - An Act Providing for the Modernization, Standardization and Regulation of the Procurement Activities of the Government and for Other Purposes

2. *A schedule of detailed engineering activities shall include the following:*

   a) ***Survey***
   b) ***Site Investigation***
   c) ***Soils and Foundation Investigation***
   d) *Xxx*

3.b) *Field Surveys and Investigations – Necessary field surveys and investigations which may include aerial, hydrographic, topographic, hydrologic, sub-surface, monumenting and other surveys shall be carried out in accordance with the design guidelines, criteria and standards adopted by the agency concerned. All survey and investigation works shall be prepared in a manner satisfactory to carry out accurate design and production of plans that will permit quantity estimates to be made within plus or minus ten percent (10%) of the final quantities of the completed structure."* (emphasis supplied)

9.11 Per NDC's reply to our previous year's AOM, their consultant conducted a soil investigation during the preparation of the DED. The areas covered by the said investigation were at the locations of the proposed water reservoir and sewerage treatment plant alone. These are also near the administrative building to be constructed according to the plan. They assumed that the design made by the consultant to construct slope protection comprised of Coconut Fiber Net with Vetiver Grass was based on the condition of the soil.

9.12 Further, the construction works at the Deep Well Nos. 5, 7, 8, and Pump Complex No. 3 inside the First Cavite Industrial Estate (FCIE) was suspended due to objections from the LGU of Dasmariñas City.

9.13 The construction of a Deep Well and the installation of equipment for the NDCIE's water supply were included in the Revised DED and integrated into the Revised Bill of Quantities (Revised BOQ) since water is a basic utility in an ecozone.

9.14 Inquiry with the NDC's Account Officer of the project revealed that the original design/plan was to construct deep wells inside the NDCIE compound for the water supply system. However, NDCIE was not given a permit by the National Water Resources Board (NWRB) for such an undertaking. As a result, NDC revised the design for NDCIE's water system.

9.15 Currently, NDC's options include tapping FCIE Association, Inc. to provide water to NDCIE or rehabilitating some of FCIE's idle deep wells. The latter option involves applying for a transfer permit with the NWRB to construct a deep well from FCIE to NDCIE. However, the LGU of Dasmariñas City rejected both options in their meeting on August 25, 2023.

9.16 As a result, the NDC in its letter to the contractor dated August 29, 2023, instructed the contractor to suspend all works related to the water supply system of NDCIE effective August 25, 2023, delaying further the completion of the whole project. Although the construction of the water supply system was included in the original and revised DED and integrated into the Revised BOQ, the other requirements associated thereto, such as permits, were not considered.

9.17 The temporary suspension in the construction of the water supply system for the NDCIE could have been prevented if the preliminary engineering study was comprehensively undertaken considering the complexity of the project at hand, which apparently is not in conformity with the above-cited provision of the RIRR of RA No. 9184, specifically Item No. 1 of Annex A – Detailed Engineering for the Procurement of Infrastructure Projects. It appears that the land use and zoning guidelines were not sufficiently undertaken in the feasibility study. Thus, the updated DED and some information therein were insufficient.

9.18 As of December 31, 2023, the total amount paid to the contractor is P141.568 million, representing 75.66 per cent of the total works completed. The project remains unfinished and past its target completion date of January 30, 2024. NDC needs to implement courses of action to address the problems and find definitive solutions.

9.19 We recommended that Management:

a. Determine courses of action to be implemented in the area where soil erosion occurred affecting the construction of the administration building and other improvements;

b. Formulate a definitive action plan on the construction of a water supply system for NDCIE to prevent further delays in the project;

c. Coordinate promptly and regularly with government regulatory agencies for timely resolution should any problem arise; and

d. Henceforth, ensure the reliability, completeness, and timeliness of the preliminary engineering study for future infrastructure projects before proceeding with the Detailed Engineering Design in accordance with the RIRR of RA No. 9184.

9.20 Regarding soil testing, Management commented that the Business Development Group (BDG) shall recommend the conduct of a thorough soil analysis in light of the erosion and changes in weather patterns recently. This will likewise be the precursor for the second phase of the project to prevent the occurrence of the same issue.

9.21 Regarding water supply, Management commented that NDC has not been remiss in exploring options to resolve the challenges of setting up the water infrastructure and supply for the NDCIE. NDC has maintained close coordination and pursued conversations with the Dasmarinas LGU and the FCIE Association to arrive at a sustainable and viable solution for all concerned stakeholders.

9.22 The NDC, acting upon a previous recommendation by NWRB, negotiated with the FCIE Association to agree to supply water to NDCIE. The FCIE Association concurred, provided that Deep Well (DW) Nos. 5 and 7 and the cable connection from DW No. 8 to Pump Complex No. 3 Genset will have to be rehabilitated by NDC to ensure a sustainable water supply for the utility of both FCIE and NDCIE. The cost of the rehabilitation is to be included in the NDCIE project cost. Thus, the rehabilitation works were integrated into the updated DED and in the BOQ.

9.23 In September 2023, NDC requested the official transfer of the water permits of DW Nos. 5 and 7. Early this year, the FCIE Association Board approved said request, pending the filing of a Petition to Transfer at the NWRB. Relative to this, NDC is currently working with the FCIE Association on finalizing a Memorandum of Agreement (MOA), which is one of the requirements of the NWRB to approve the Petition to Transfer.

9.24 On the other hand, given the repeated stumbling block imposed by the Dasmariñas LGU and Dasmariñas Water District, the NDC has decided to push for the issuance of a Presidential Proclamation (PP) for NDCIE to be registered under the Philippine Economic Zone Authority (PEZA). Once proclaimed, the NDCIE will be a separate customs and franchise territory. Under this arrangement, all the necessary permits and licenses will have to be coursed through and handled by the PEZA, further sheltering the NDCIE from further external pressures that cause unnecessary delays.

9.25 NDC Management added that they have been actively reviewing the contract and intend to urgently come up with a road map as the Project endeavors to complete Phase 1 and transition into Phase 2.

9.26 The Audit Team reiterated that the agreed completion time of the project after several extensions is on January 30, 2024. The suspended works pertain only to the areas where soil erosion occurred and the water supply systems for the NDCIE, and not for the entire project; thus, the delay is continuous. While Management is exploring options to resolve the issues and awaiting the issuance of PP for NDCIE to be registered under the PEZA, no definitive action was presented by Management to prevent further delay or any agreement with the contractor as regards thereto. Management stated that they would give their recommendation on project disposition after the exit conference.

9.27 During the exit conference, the Audit Team clarified that there were no Phases 1 and 2 in the master plan, which may lead to technical evaluation issues. In response, Management agreed that there is no Phase 2 *per se* due to lapses in the original design. Management stated that if it is a matter of nomenclature, they will change the name. Nonetheless, Management assured the Audit Team that NDC would seriously take into consideration the recommendations to ensure that the observations would not be repeated.

10. The value of NDC's investment of P45 million in the Rizal Hydropower Project declined significantly due to continuous losses since its commercial operations in calendar year (CY) 2016.

10.1 This is a reiteration of the prior years' audit observations with updated information.

10.2 On October 25, 2013, Philippine National Oil Company Renewables Corporation (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 project of the former. Also, NEECO-Area 2 shall enjoy priority dispatch as a renewable energy resource at a rate of four pesos per kilowatt-hour, subject to annual changes based on the consumer price index. The agreement is effective for eight years, starting with the commencement of commercial operation of the power plant facility.

10.3 On July 1, 2014, NDC and PNOC RC executed a MOA to establish and enter into a partnership for the development, commercialization, operation, and maintenance of the Rizal Hydropower Project (the Project, for brevity) for energy commercialization.

10.4 The 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 meters per second and an irrigation service area of 12,412 hectares. The project is expected to generate at least 1 megawatt of power to be supplied to the Luzon Grid.

10.5 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 10 per cent management fee, based on total project employees' cost.

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

10.7 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, operation and maintenance and related expenses of the Project. The execution of the Escrow Agreement is pursuant to Section 8.1 of the MOA, which designates DBP as the escrow agent for the administration of the Project funds.

10.8 The Project started commercial operations on July 1, 2016. However, it continuously incurred operating losses, except for CY 2017. As a result, the Project's Equity has declined over the years. Details are presented below:

Table 13 - Project's Financial Performance

	Income	Expenses	Net Income (Loss)	NDC's 50 per cent share
2016	2,331,831	5,309,981	(2,978,150)	(1,489,075)
2017	9,261,720	8,696,708	565,012	282,506
2018	5,697,650	7,397,656	(1,700,006)	(850,003)
2019	6,499,279	8,212,260	(1,712,981)	(856,491)
2020	4,017,260	7,949,714	(3,932,454)	(1,966,227)
2021	4,162,519	7,338,872	(3,176,353)	(1,588,177)
2022	464,140	5,478,076	(5,013,936)	(2,506,968)
2023	3,966,257	7,474,031	(3,507,774)	(1,753,887)
Total	36,400,656	57,857,298	(21,456,642)	(10,728,322)

10.9 The result of the Project's operations is far from Management's projections in CY 2013 of a financial internal rate of return of 12.36 per cent, and a targeted payback period of eight years. As of December 31, 2023[11], NDC's 50 per cent share in the Project, from its initial investment of P45 million, have now declined to P28.711 million[12], as shown below:

Table 14 - Project's Financial Position

Year	Assets	Liabilities	Equity
2016	88,468,438	12,260,251	76,208,187
2017	87,543,154	10,769,955	76,773,199
2018	86,719,532	11,646,340	75,073,192
2019	78,101,283	4,742,766	73,358,517
2020	75,374,175	6,040,878	69,333,297
2021	70,823,753	4,666,808	66,156,945
2022	65,917,182	4,774,174	61,143,008
2023	62,577,218	5,156,042	57,421,176

10.10 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:

i. Inconsistent and inadequate water flow rate going to the facility; and
ii. One turbine is not functioning, and there is a delay in the delivery of its spare parts from China to be used as replacements.

10.11 The facility's electricity/power generation solely depends on the volume of water in the PRISMC, and the National Irrigation Administration (NIA) controls its flow rate.

10.12 During the rainy season, NIA regulates the flow of water from the dam to different irrigation system canals to prevent flooding in the rice/vegetable farms. During the dry season, it releases more water through different canals directly to the farms. As a result, the water flow rate going to the hydropower facility is not consistent, thus affecting its operation.

10.13 We noted this issue in our prior year's Audit Observation Memorandum and emphasized that the water flow and volume of water are the primary considerations of any prospective investor prior to entering into this kind of business undertaking. Hydropower facilities, such as the Project, are highly reliant on water flow and volume to function and generate enough electricity/power; thus, it directly affects the project's revenue generation. Also, the irregular operation affects the longevity and performance of major equipment used in the Project which causes frequent breakdowns.

10.14 Based on an inquiry, in September 2019, the PNOC RC Board of Directors (BOD) approved the proposition to dispose/sell the Project. Accordingly, the hydropower plant was valued by an independent appraiser at P79.480 million. However, the disposal did not materialize, and the plant continued to operate.

[11] Unaudited balances for the period ending December 31, 2023
[12] Fifty per cent of the Project's Equity as of December 31, 2023

10.15 In April 2021, the plant stopped operations due to NIA's rehabilitation of the Upper Pampanga Integrated Irrigation System Main Canal 7 spillway. After NIA completed the repair of the spillway gates, PNOC RC expected that the generation of electricity/power would improve. Thus, the proposition to dispose of the plant was re-evaluated. Eventually, the plant resumed operations on December 2, 2022.

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

10.17 In July 2023, an appraisal was conducted by an independent appraiser for the planned disposal of the plant and valued it at P56.213 million. Inquiry with NDC Special Projects Group disclosed that, during their regular meeting with PNOC RC on January 24, 2024, the latter informed NDC that the plant had stopped operating permanently, and all fixed-term employees, except the plant manager and security guards, who were assigned to manage the plant, had voluntarily resigned.

10.18 Based on the foregoing, we observed that the Project is in an inauspicious state and its financial performance for eight years has been unsatisfactory, thus affecting its viability.

10.19 After eight years since the Project started commercial activities, it sustained losses due to its intermittent operations. If such continues, the value of NDC's investment will further decline. On the other hand, if disposal is pursued, both parties should act immediately and decisively to recover most of the plant's value and to avoid further deterioration of the facilities, such as the building, other land improvements, and machinery and equipment.

10.20 **We recommended that Management coordinate with the PNOC RC and formulate an action plan to obtain the most advantageous result for both parties and, ultimately, for the government.**

10.21 Management commented that representatives from NDC, together with the potential operations and maintenance consultant, Regenerative Sustainable Projects, Inc. (RSPI), visited the Rizal Hydropower Project in Nueva Ecija last February 21, 2024.

10.22 Based on the visit, it was observed that several floodgates owned and operated by NIA need repair or rehabilitation; hence, water is not dispensed during the rainy or harvest season for fear of inundating the farms or flooding the adjacent towns. Furthermore, operational protocols between the PNOC-RC on the project site and NIA are absent or few and far between, at best. As such, the project is unable to optimally operate for most of the year.

10.23 Considering the foregoing, BDG and RSPI hereby recommend the following action plans:

- Meet with PNOC-RC to ascertain management directives on the disposition of its shares in the project (the proposed date is the first week of June 2024);
- Meet with NIA for better coordination on the floodgates as well as repair options of the same including funding sources to ensure that the project continues to or operates optimally independent of the planting cycle and weather;
- Suspend any or all payments, subsidies, and the like due to PNOC-RC pending further evaluation of the project;
- Outsource the operations and maintenance of the hydropower project to technical and operational experts in the private sector;
- Renegotiate the Power Supply Agreement with NEECO-Area 2 for a better rate since the agreement should have expired last October 24, 2021, and
- Determine and retain replaceable parts on hand as well as malfunctioning materials which usually causes the breakdown of the plant and leads to unnecessary downtime in operations.

10.24 Management informed the Audit Team that they will meet with PNOC-RC in June 2024.

10.25 The Audit Team stressed that Management should initiate a definitive action plan as soon as possible, considering the substantial decrease in the value of the investment in the project based on the two appraisals conducted by the independent appraisers mentioned above.

11. NDC-Philippine Infrastructure Corporation (NPIC) remained idle and non-operational for 16 years despite NDC's plan to use the former as a vehicle for infrastructure projects, resulting in the non-utilization of government assets and resources in a judicious and efficient manner.

11.1 This is a reiteration of the prior years' audit observations with updated information.

11.2 NPIC was incorporated on January 27, 2005, and was primarily created to develop, package, structure, and/or manage investments in infrastructure projects and commercial ventures related to the development of infrastructure in which the NDC, its parent company, wishes to participate and invest. On May 13, 2009, however, the NPIC BOD resolved that NPIC's term of existence would be until July 31, 2009.

11.3 During the Aquino Administration (2010-2016), Public-Private Partnership (PPP) became the priority agenda thus the former NDC Chairman decided to put on hold the dissolution of NPIC as it may be used as a vehicle in the implementation of the PPP program of the government. In this regard, NPIC was not among the NDC subsidiaries recommended for dissolution in a meeting between the NDC officers and the Commissioners of the Governance Commissions for GOCCs (GCG).

11.4 In 2013, GCG submitted recommendations to the Office of the President (OP) of the Republic of the Philippines for the dissolution of several Government-Owned and Controlled Corporations (GOCCs), which include NPIC, due to non-performance and/or being unnecessary. Relative thereto, in a Press Release dated March 2, 2014, and in the Official Gazette dated March 3, 2014, NPIC was among the 19 GOCCs recommended for abolition under House Bill No. 3807.

11.5 The former NDC Chairman requested reconsideration from the GCG for the continuance of NPIC's existence and provided justifications for its retention to the OP. As a result, the OP retained the existence of NPIC. However, NPIC was neither tapped as a vehicle in the implementation of PPP projects nor in any government infrastructure projects.

11.6 In 2018, the GCG classified NPIC as a non-operational/inactive GOCC.

11.7 In the Regular Board Meeting held on July 6, 2018, the NDC Board approved the establishment of the first commercial multi-purpose Gamma Irradiation Facility (GIF). On August 1, 2019, a Memorandum of Agreement (MOA) was executed between NDC and the Philippine Nuclear Research Institute to collaborate in the establishment of GIF, with the latter providing technical expertise and assistance. Accordingly, NDC will use NPIC to implement the project. However, no significant development has yet been made.

11.8 The state recognizes GOCCs as a significant tool for economic development. Thus, it established the GCG to promote the growth of GOCCs and to ensure that the operations are consistent with national development policies and programs. In this regard, it is imperative that the GOCC is utilized judiciously and that its assets and resources are used efficiently pursuant to Section 2 (a) and (b) of the Republic Act No. 10149, as quoted in Paragraph 11.16 above.

11.9 The status of NPIC has been in a state of uncertainty for the past 16 years; in effect, the capital, assets, and resources are underutilized, as it only generated a measly net profit of P1.470 million from interest earned in money market placement for the said period. The assets and resources of the NPIC are practically sleeping/dormant. Thus, NPIC was not utilized judiciously, and its assets and resources were not used efficiently. Moreso, with the present circumstance/condition of the NPIC, it is barely a factor in the economic development of the country.

11.10 Also, this observation has been raised with the NPIC for several years and Management's constant comment/reply is that, NDC plans to use NPIC as a vehicle for its projects and is waiting for the former's directives. However, per calendar year 2022 Annual Audit Report (AAR) of NDC, Management commented that it now intends to use NPIC as a holding company for all infrastructure projects of NDC.

11.11 Notwithstanding the above, the Management of NDC and/or NPIC have not taken any steps in reactivating NPIC for the supposed plan, considering that NPIC is still in the GCG's list of non-operational/inactive GOCCs as of June 28, 2022. Further, during the Entrance Conference for NDC Subsidiaries held on January 17, 2024, Management stated that, due to the tedious process of reactivating the NPIC in whatever mode, it was not pursued at the moment.

11.12 If NPIC is indeed intended to be used as a vehicle for NDC projects, it is imperative that the NPIC Management start applying for its reactivation so that the latter will be ready and prepared for any project that the NDC will venture on.

11.13 Nonetheless, NDC, having no apparent infrastructure project for NPIC's implementation, is not judiciously and efficiently utilizing the latter's assets and resources. Protracting its utilization is disadvantageous to the government and the public in general.

11.14 In view of the foregoing, we recommended that Management:

a. Proceed with the application for reactivation of NPIC so that it is ready for any NDC projects; and

b. Formulate concrete plans and realizable projections on the use of NPIC as NDC's vehicle for its projects to avoid further stagnation of the former's assets and resources and to ensure their judicious and efficient utilization.

11.15 Management commented that NDC is cognizant that NPIC remains non-operational despite being incorporated way back in 2005. Then, Trade Secretary Domingo defended the need to retain NPIC as a corporation so that a vehicle can readily be utilized if a future project or venture needs one. Management emphasized that this strong opposition to the abolition of NPIC was not premised on keeping a subsidiary for the sake of retaining it but on letting it subsist in order to forego the creation of another one in case a separate corporation is required for a project to proceed.

11.16 Nonetheless, Management stated that NDC is presently negotiating with certain Government Financial Institutions to partner or enter into joint ventures to pursue innovation, power, food security, and cybersecurity projects. Management is scheduled to meet with GCG on June 6, 2024, to discuss the re-activation of NPIC, among other things.

11.17 The Audit Team emphasized that it is imperative for the Management of both NDC and NPIC to expedite the latter's reactivation process to avoid impediments to utilize NPIC as a vehicle for NDC's projects.

12. NDC's protracted acquisition of the 40 per cent share of Goodyear Phils. Inc. (GPI) in GY Real Estate, Inc. (GYREI) adversely affects GYREI's financial condition and going concern status.

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

12.2 On May 26, 1975, GPI donated 60 per cent of its undivided interest, right, and title to its two parcels of land to NDC. Thereafter, NDC and GPI executed a Deed of Transfer and Conveyance and conveyed their respective 60 and 40 per cent share in the two parcels of land in exchange for fully paid shares of stock of GYREI. Thereafter, GYREI and GPI entered into a Contract of Lease on the subject parcels of land located in Almanza, Las Piñas, for a period of 25 years renewable for another 25 years.

12.3 In November 2009, the Lease Contract, which expired on May 25, 2000, was renewed retroactive from May 26, 2000. However, GPI ceased its manufacturing operations in the country in October 2009. The lease contract was later terminated effective April 25, 2011.

12.4 On May 19, 2011, GPI formally offered for sale its 40 per cent share during the GYREI special Board Meeting. Based on GYREI's Articles of Incorporation, GYREI or its nominee/s has the exclusive and preferential right and option to purchase the GPI shares. During the same meeting, GYREI nominated NDC as the buyer of GPI shares.

12.5 The NDC BOD approved and authorized the acquisition of GPI shares. On May 31, 2011, NDC notified GPI that they would exercise the option to purchase. However, NDC requested several extensions due to some matters that still needed to be cleared. In a letter dated November 14, 2012, GPI denied NDC's request for an extension with finality.

12.6 On June 1, 2018, GPI again advised NDC that they are selling all their shareholdings in GYREI. On September 27, 2018, GPI, through its broker, arranged a meeting with prospective buyers to discuss the approval process relative to the sale of GPI's shares and NDC's position regarding such a sale. Three real estate developers attended the meeting, and they are planning a mixed-use development project on the land.

12.7 On August 7, 2019, GYREI received a letter from GPI regarding the offer of one real estate company to purchase all of GPI's shares. Accordingly, GPI raised the provision on the right of first refusal of GYREI or its nominee to purchase the said shares on the same terms and price offered by the real estate company.

12.8 On December 3, 2019, the NDC Board approved the purchase of all the shares of GPI in the amount of P4.420 billion. The deadline for payment was due on February 17, 2020. However, the necessary documents to purchase the GPI's shares were not obtained on time. Hence, the deadline for payment was reset on April 17, 2020. Yet, the completion of documents was affected by the COVID-19 Pandemic; thus, payment was again extended to June 16, 2020. However, later, the NDC Board approved letting the NDC's option to purchase GPI's share to lapse, considering the adverse effects of the pandemic, and government funds are expected to be utilized in response thereto.

12.9 Presently, GPI is continuously working on the sale of its 40 per cent share in GYREI. Likewise, the NDC Board expressed that it reserves the right to exercise its option to buy the GPI's share. In the previous year's AAR, NDC Management commented that 40 per cent ownership of GYREI will be bought out from GPI, because the property representing GPI's share, is of significant value and importance.

12.10 This observation has been raised in GYREI AAR for several years, and GYREI Management commented that NDC is committed in acquiring such a share. However, NDC is currently evaluating the price of the share, funding requirements, and concessions by GPI, among others. It is worth mentioning that as of December 31, 2023, NDC did not have enough liquid assets to purchase the GPI share since most of its assets are investment properties.

12.11 Pending NDC's acquisition of GPI's shares, it adversely affects GYREI's condition and operations. 174,943 square meters (sq. m.)[13] or 96 per cent of the total land area of

[13] Total land area of 181,729 sq. m. less total area that were utilized 6,786 sq. m. (5,000 sq. m. leased by HH ATC; 1,566 sq. m. used by City Government of Las Piñas; and 220 sq. m. leased by GSIA Security Agency)

GYREI property remains unutilized, as GYREI is precluded from entering into a longer lease-term agreement, thus, limiting its income-generating potential.

12.12 As of December 31, 2023, GYREI's net loss has aggregated to P104.469 million since calendar year 2011, resulting in poor financial ratios. GYREI has an inadequate cash fund, resulting in liquidity risk and negative cash flow.

12.13 Consequently, GYREI will be unable to repay its loan to NDC and GPI, which will mature on June 15, 2024, with principal and interest amounting to P22.500 million and P1.143 million, respectively.

12.14 These financial conditions indicate material uncertainties casting significant doubt on GYREI's ability to continue as a going concern. The NDC Management should expedite the acquisition of GPI's 40 per cent share, considering that GYREI's limited operation has adverse effects on its current financial condition and is also disadvantageous to the stakeholders and the government in general.

12.15 We reiterated our previous year's recommendation that Management expedite the purchase of GPI's 40 per cent share in GYREI. Thereafter, develop a concrete plan to maximize the utilization of the subject property and improve GYREI's financial condition in the best interest of the stakeholders and the government.

12.16 Management commented that NDC and GPI executed a Memorandum of Understanding (MOU) dated May 9, 2024, confirming the preliminary understanding between NDC and GPI to cooperate within the framework of the applicable laws and their respective mandates and authorities in the negotiations for the purchase price of GPI's shares in GYREI. The terms of the MOU provide that NDC and GPI shall discuss and endeavor to reach, in good faith, a mutually beneficial agreement on the proposed purchase of NDC of GPI's shares in GYREI, by August 31, 2024, which shall also be in accordance with the existing laws, rules and regulations.

12.17 Management added that a final MOA will still be subject to approval by the respective Boards of NDC and GYREI. Given the significant amount of money involved in the acquisition of GPI's shares, NDC has to be prudent in utilizing its funds, considering all its priority projects.

12.18 On the other hand, Management has contracted two appraisal companies to provide the Highest and Best Use (HABU) of the GYREI property. NDC received the appraisal reports, including the HABU, in March 2023, which will be the basis for maximizing utilization of the GYREI property.

12.19 The Audit Team will monitor Management's subsequent actions, particularly the results of the negotiation between NDC and GPI after August 31, 2024.

13. NDC's impending acquisition of the 40 per cent share of GE Lighting Philippines, Inc. (GELP) in Pinagkaisa Realty Corporation (PRC) and the lack of a definitive plan after the turn-over of the PRC's investment property have adversely affected its financial condition and going concern status.

13.1 This is a reiteration of the prior years' audit observations with updated information.

13.2 With the termination of the American Parity Agreement on July 3, 1974, NDC acquired a 60 per cent undivided interest in the four parcels of land owned by the Philippine Electric Manufacturing Company (PEMCO), now GELP, through absolute purchase. On September 30, 1977, a Deed of Assignment and Transfer was executed by NDC and PEMCO, conveying their respective 60 per cent and 40 per cent undivided interest in exchange for fully paid shares of stock of PRC.

13.3 On November 14, 1977, PRC and PEMCO entered into a 25-year contract of lease for the former's lone investment property located at P. Domingo St., Makati City, with a total area of 17,320 sq. m. The lease commenced on October 1, 1977, and expired on September 30, 2002.

13.4 GELP ceased its manufacturing activities in calendar year (CY) 2004. Accordingly, GELP agreed to dispose/sell the property. Thus, PRC and GELP formed a negotiating team to discuss all the issues regarding the back lease/rental payments for the latter's continued use of the former's property from the time the contract expired. However, the sale did not materialize since GELP opted to renew its lease on the PRC property.

13.5 On July 4, 2011, the contract was renewed for 18 years and three months, commencing on October 1, 2002, and ending on December 31, 2020. On August 11, 2020, GELP requested for extension of the term of the contract to complete the decommissioning and remediation process on the leased property[14]. The PRC BOD approved the lease extension until March 31, 2022. Thereafter, another extension was approved extending the lease term until December 31, 2022. GELP's payment of the lease continued until the property was turned over.

13.6 On August 30, 2023, PRC and GELP executed a Lease Termination Agreement, and the former consequently issued an Acceptance Letter on even date. PRC took possession of the leased property on August 31, 2023. Since its turnover, the PRC has not generated any income. It appears that PRC Management had no concrete/definitive plan on the subject property in anticipation of the turnover.

13.7 As stated in the previous year's Annual Audit Report, NDC intends to acquire the 40 per cent share of GELP in PRC, considering that the subject property is of significant value and importance. Thus, on December 6, 2023, NDC engaged the services of a private corporation for consulting services to determine the HABU and valuation of PRC's lone investment property. Per inquiry with the Asset Management Group, the HABU study and valuation report have yet to be finalized.

[14] Section 15.1 of the contract of lease provides that two years prior to surrendering the leased premises to the lessor, the lessee shall conduct, at its own expense and cost, an Environmental Site Assessment to determine the presence of any contaminants on the soil or groundwater that might be attributable to the lessee.

13.8 On the other hand, the PRC Management in its Agency Action Plan and Status of Implementation dated April 19, 2024, expressed that they are currently looking for productive and viable use for the property while waiting for NDC's directive and long-term plans.

13.9 It is worth mentioning that NDC also intends to acquire the 40 per cent ownership of GPI in GYREI, another subsidiary of NDC. However, Management is still in the process of evaluating the price of the share and funding requirements, among others. In this regard, the purchase of the 40 per cent share of GELP in PRC may pose a possible liquidity risk for NDC, considering that the latter does not have enough liquid assets to purchase both shares since most of its assets are in the form of investment properties. Moreover, these investment properties are not readily disposable, and some have various legal impediments.

13.10 Nonetheless, per inquiry with Finance and Subsidiaries Group, NDC intends to acquire the GELP shares in PRC for P600 million, the price offered by GELP via email. The NDC Management has yet to receive a formal written offer from GELP. Meanwhile, the NDC Management will seek approval from its BOD for such an acquisition.

13.11 Dependent on the immediate and definitive plans/actions of NDC Management to address the issues above, the continued non-generation of income of PRC results in the ineffective and inefficient use of government funds and resources and adverse effects on PRC's financial condition, posing significant risks to the capability and sustainability of PRC's continued operation. This is contrary to the declared policy of the government that all resources should be managed, utilized, and safeguarded against loss or wastage through improper disposition, with a view of ensuring the efficiency, economy, and effectiveness of government operations.

13.12 We reiterated our previous year's recommendation that Management provide a clear plan regarding its impending acquisition of the 40 per cent share of GELP in PRC and outline a comprehensive strategy for the PRC's sustainable operation and profitability.

13.13 Management commented that NDC plans to acquire GELP's 40 per cent share in PRC within CY 2024, in which the acquisition cost for the subject shares is already included in the NDC Corporate Operating Budget for CY 2024.

13.14 Management also stated that NDC is securing a formal offer from GELP for the sale of its shares in PRC at P600 million. A MOU was executed between NDC and GELP, manifesting a mutual commitment to exert all efforts to materialize the acquisition.

13.15 Moreover, Management has contracted two appraisal companies to provide the HABU of the PRC property. NDC received the appraisal reports, including the HABU, in June 2023, which will be the basis for maximizing the utilization of the PRC property.

13.16 The Audit Team stressed that NDC, in coordination with PRC, should provide a clear action plan to generate income or utilize PRC's sole property, which has been idle and vacant since August 31, 2023, pending the acquisition of NDC of GELP's shares in PRC.

14. Copies of contracts, Purchase Orders (POs), and Job Orders (JOs) and their supporting documents aggregating P36.465 million were not submitted as prescribed under Sections 3.1 and 3.2 of COA Circular No. 2009-001, thus preventing the Audit Team from conducting a timely review and evaluation.

14.1 This is a reiteration of the prior years' audit observations with updated information.

14.2 Section 2.1 of COA Circular No. 2009-001[15] provides that the Circular shall cover all contracts, purchase orders, and the like entered into by any government agency, irrespective of the amount involved. Moreover, Sections 3.1 and 3.2 of the same Circular 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)

14.3 Review of all contracts executed and entered into by and between NDC and the contracting parties disclosed that eight contracts with contract amounts aggregating P32.600 million were submitted to the Audit Team beyond the prescribed five working days (WDs) from the date of execution. The delay ranges from four to 110 WDs contrary to the above-mentioned COA Circular.

14.4 Similarly, copies of 24 POs and 25 JOs issued to various suppliers/contractors, with an aggregate amount of P1.062 million and P1.804 million, respectively, were submitted to the Audit Team beyond the prescribed five WDs from issuance thereof. The delay ranges from two to 20 WDs.

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[15] 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. February 12, 2009.

14.5 Compliance with the prescribed period of submission of copies of contracts, POs, and JOs facilitates a systematic, efficient, and effective review process to be undertaken by the Audit Team. It also provides the Audit Team ample time to call the attention of Management for corrective measures, in case of any defects and deficiencies discovered. Additionally, these documents provide essential information that will aid in verifying the propriety of transactions.

14.6 During our audit of transactions for CY 2022, we issued Audit Observation Memorandum (AOM) No. 2023-21 (22) dated June 5, 2023, pertaining to the same issue. Management cited various reasons, such as delay in the contract review by the Office of the Government Corporate Counsel (OGCC), different locations of the parties, voluminous documentary requirements to be attached to the contract as an integral part thereof, and other factors beyond the control of NDC, among others.

14.7 Despite these factors, Management assured that they will strictly monitor and adhere to the submission of copies of contracts, POs, and JOs, including their supporting documents, within the prescribed period. Although contract submissions and the like have not yet been fully complied with, the Audit Team noted a substantial decrease in late submissions after issuing the AOM above.

14.8 Also, we observed that all contracts entered into by NDC are not managed/monitored and that the responsibility for its submission rests on the end user or the work group primarily involved. Since there are newly created groups with new personnel, there is a risk of non-compliance with the COA Circular.

14.9 For instance, a contract was submitted only after the Audit Team called the attention of the concerned work group. The work group reasoned that they were not aware of the COA requirement.

14.10 The delayed submission of contracts, POs, and JOs, together with supporting documents, affects the timely auditorial review and technical evaluation of the same. Consequently, defects and deficiencies, if discovered belatedly, may no longer be remedied, and may place the NDC at a disadvantage.

14.11 Given the foregoing, we recommended and Management agreed to:

a. Strictly comply with Sections 3.1 and 3.2 of COA Circular No. 2009-001 on the submission of contracts, POs, and JOs, including attachments/ supporting documents, within five WDs from the execution date;

b. Monitor and remind each work group on the timely submission of contracts, POs and JOs, and supporting documents;

c. Henceforth, for submissions of contracts, POs, and JOs, where delay cannot be avoided due to factors beyond NDC's control or those reviewed by the OGCC, attach an explanation with supporting documents; and

d. Also, submit a quarterly summary of all contracts entered into by NDC to ensure complete and timely submission of all contracts.

14.12 During the exit conference, Management stated that they instructed the approvers/signatories to affix the date when they signed the PO/JO. The Audit Team recommended, and Management agreed, that the date when the last approver signed the PO/JO be considered the issuance date and the reckoning date for its submission.

15. The balances of the car and housing loans granted to former NDC officials and employees, aggregating P0.822 million and P5.921 million, respectively, remained outstanding/dormant for three to 25 years due to the passive action of Management.

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

15.2 The NDC granted car and housing loans to its former officials and employees. As of December 31, 2023, the balances of the Car Loan and Housing Loan Receivable accounts, amounting to P0.822 million and P5.921 million, respectively, remained dormant for three to 25 years.

a) <u>Car Loan</u>

15.3 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."*

15.4 As of December 31, 2023, the car loan balance of P0.822 million pertaining to the outstanding loan of three former NDC officials, who were separated from the NDC for more than a decade, remains dormant for 11 to 25 years. The last correspondence sent by Management to these officials was on February 3, 2020. The table below shows the summary of the outstanding car loan balances.

Table 15 - Outstanding Car Loan

Borrowers	Date of loan granted	Employment Status	No. of Years Dormant	Outstanding Balance
Official 1	August 31, 1993	Former NDC Director	25	378,000
Official 2	October 14,1999	Retired on October 20, 2003, and availed of the NDC retirement package under Executive Order No. 184.	19	171,212
Official 3	April 2007	Resigned on April 30, 2009	11	273,113
Total				**822,325**

15.5 The balances of the car loans of these former officials were not collected before the issuance of their clearances, yet the motor vehicles were not returned or surrendered. Instead of charging the unpaid loans against their retirement or separation pay, the NDC agreed to accept an acknowledgment of outstanding loans and post-dated checks issued by the former officials.

15.6 Records indicate that in CY 2018, the NDC sent a letter to the OGCC to follow up on a request from Officials 1 and 2 to inquire about the status of car loan receivables.

Additionally, Management met with Official 3 to reconcile his outstanding balance. However, the car loan balances have remained dormant to date.

b) Housing Loan

15.7 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."*

15.8 Audit of Receivable accounts as of December 31, 2023, showed that housing loans granted to 18 former employees/borrowers, including one non-NDC employee, aggregating P5.921 million, remained dormant for a period ranging from three to 24 years.

15.9 In CY 2019, NDC foreclosed the mortgaged property of one borrower and received full payment from another. However, in CY 2022, two more accounts were classified as delinquents for not paying their loans for three to four years. Details of delinquent accounts as of December 31, 2023, are presented below:

Table 16 - Outstanding Housing Loan

Employees	Date of loan granted	Status of Loan Receivables	No. of Years Dormant	Outstanding Balance
Employee 1	September 1998	Case is ongoing	24	302,848
Employee 2	August 2000	With certificate of sale in favor of NDC dated Nov. 25, 2021	20	406,539
Employee 3	August 1998	With a certificate of sale in favor of NDC dated June 4, 2020	19	298,519
Employee 4	October 2001	For filing of extrajudicial foreclosure	18	372,201
Employee 5	October 1999 and October 2003	For filing of extrajudicial foreclosure	18	179,264
Employee 6	May 1996	For filing of extrajudicial foreclosure	18	134,070
Employee 7	October 2002	For filing of extrajudicial foreclosure	17	287,613
Employee 8	March 1999	For filing of extrajudicial foreclosure	14	120,738
Employee 9	July 1999	For filing of extrajudicial foreclosure	10	199,303
Employee 10	March 2000	For filing of extrajudicial foreclosure	10	142,749
Employee 11	July 2006	For filing of extrajudicial foreclosure	9	1,440,576
Employee 12	May 1998	For filing of extrajudicial foreclosure, Payments amounting to P89,285.71 in CY 2022 were all applied to penalties.	7	264,277
Employee 13	June 2001	For filing of extrajudicial foreclosure	6	378,597
Employee 14	December 1999	For filing of extrajudicial foreclosure	6	265,190
Employee 15	September 1995 and March 1998	For filing of extrajudicial foreclosure	6	167,767
Employee 16	April 1999	For filing of claims against the estate to be referred to OGCC	19	450,260

Employees	Date of loan granted	Status of Loan Receivables	No. of Years Dormant	Outstanding Balance
Employee 17	1999	For filing of claims against the estate to be referred to OGCC	7	322,780
Employee 18	November 2002	One payment made in CY 2023 was mostly applied to penalties. Last payment was in CY 2019.	4	168,835
Employee 19	October 1995 and February 1998	For collection in coordination with Treasury Unit	3	18,798
Total				**5,920,924**

15.10 The preceding status of the delinquent accounts was derived from the NDC's Status Report of Unliquidated Cash Advances, Fund Transfers, and Other Receivables for the second semester of CY 2023. However, aside from Employees 12 and 18, there were no updates/changes in other employees' status compared to the status report submitted last CY 2022.

15.11 Given that these receivables have been outstanding for several years and the borrowers are in default, there is sufficient ground to institute legal action.

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

a. **Require the Legal Department to expedite the filing of extrajudicial foreclosure and claims against the estates for defaulting former NDC officials and employees;**

b. **Direct the Treasury Unit to exert more effort in collecting payment from Employees 18 and 19; otherwise, refer the matter to the Legal Department for legal action;**

c. **Expedite acquisition of properties and transfer of titles under NDC's name for the two accounts (Employees 2 and 3) with a certificate of sale;**

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

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

15.13 Management commented that the Legal Department sent demand letters to the concerned former NDC officials and employees who have been remiss in their loan obligations. The Legal Department has received responses from some defaulting former NDC employees, all requesting a waiver of/or discount in the interest and penalties imposed on the principal loans, and advised the latter to formalize their request.

15.14 The Audit Team acknowledged the efforts of Management in recovering the loans granted to former employees. However, Management should exert more effort to file extrajudicial foreclosures, collect payments, and use other legal remedies to recover these long outstanding car and housing loans. These loan receivables, once collected, can be used as additional funds for NDC's operations. Further, the additional lawyers hired can expedite the filing of petitions to foreclose the mortgage on the properties, as well as other legal remedies for the eventual resolution of the unpaid car and housing loans.

16. The grant of communication allowance to NDC officers and employees amounting to P1.030 million from October 5, 2021, to December 31, 2023, was not in accordance with the authorization letter dated January 26, 2022, of the Governance Commission for GOCCs (GCG), implementing the Compensation and Position Classification System (CPCS) under Executive Order (EO) No. 150, series of 2021.

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

16.2 On May 5, 2022, the then NDC General Manager issued an inter-office memorandum providing guidelines on granting communication allowance to its officers and employees pursuant to CPCS Circular No. 2021-010 dated January 12, 2022. The inter-office memorandum also provides that requests for reimbursement for communication allowance may be filed retroactively starting October 2021. The prepaid load cards worth P500 issued previously to qualified employees shall be deducted from the reimbursement amount.

16.3 NDC identified the following positions entitled to monthly communication allowance, as shown in *Table 17*:

Table 17 – NDC's Monthly communication allowance

Entitlement (in Php)	Position Level
Actual expense	General Manager
3,500	Assistant General Managers
2,000	Positions with (Job Grade (JG) 12 to 14
1,000	Positions with JG 7 to 11
500	Chauffeur

16.4 Audit of disbursement vouchers showed that communication allowance totaling P1.030 million was granted to officers and employees from October 2021 to December 2023.

16.5 However, we noted that the grant of communication allowance was not in accordance with the authorization issued by GCG. The authorization 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)

16.6 Based on the above provision, NDC was authorized to adopt the CPCS salary structure. However, the authority does not extend to allowances, benefits, and incentives that require determination of the career band of the positions entitled thereto since these require the GCG issuance of the final JE results of the GOCCs.

16.7 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***[1]*, in accordance with GCG En Banc Resolution No. 2021-02."* (emphasis supplied)

16.8 The communication allowance is not one of the enumerated ABIs in Chapter II of the above Guidelines but one of the other entitlements under Chapter IV that is not covered by the provision for retroactive application.

16.9 Finally, GCG, in their reply dated September 7, 2023, to the Audit Team's request[16] for clarification regarding the implementation of CPCS and grant of communication allowance, provided the following:

> *"As to the first issue, the Governance Commission noted in the authorization to implement the CPCS issued to NDC, that "[f]or 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 existing [Department of Budget and Management] and [Civil Service Commission] issuances pursuant to Chapter XI of the CPCS, until such time that the GCG has issued the final JE results of the GOCCs."*
>
> *The grant of communication allowance under CPCS Circular No. 2021-10 requires the determination of career bands. Since GCG is yet to issue the final JE results with the career bands, the grant of communication allowance shall be in accordance with existing DBM and CSC issuances.*
>
> *Xxx. The communication allowance is not one of the ABIs under the CPCS. It falls under the "Other Entitlements" chapter of CPCS. Hence, the grant of the communication allowance under CPCS Circular No. 2021-10 is not retroactive to 05 October 2021."*

[16] Letter request dated August 22, 2023

16.10 Accordingly, payment of communication allowance to the officers and employees was not in accordance with the authority to implement CPCS issued by the GCG and is deemed to be an irregular expenditure, as defined under COA Circular No. 2012-003[17].

16.11 Section 3 of COA Circular No. 2012-003 defines irregular expenditures as:

> *"The term "irregular expenditure" signifies an expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. Irregular expenditures are incurred if funds are disbursed without conforming with prescribed usages and rules of discipline. There is no observance of an established pattern, course, mode of action, behavior, or conduct in the incurrence of an irregular expenditure. A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. A transaction which fails to follow or violates appropriate rules of procedure is, likewise, irregular."*

16.12 We recommended that Management:

a. Provide a specific legal basis for the grant of communication allowance; and

b. Strictly comply with the provisions of EO No. 150, CPCS Implementing Guidelines, and authorization letter issued by GCG to NDC on January 26, 2022, on the grant of salary, allowances, benefits, incentives, and other entitlements.

16.13 Management commented that the grant of communication allowance to NDC employees is proper and supported by sufficient legal basis, as follows:

i. The Grant of Communication Allowance is allowed under Civil Service Rules Section 3.1 of Civil Service Commission (CSC) Memorandum Circular (MC) No. 06, s. 2022, or "The Policies on Flexible Work Arrangement in the Government".

16.14 Management stated that the COVID-19 pandemic changed the landscape by which government service is carried out; the CSC issued the above-cited MC on June 6, 2022. It allowed government offices to adopt alternative work arrangements to ensure effective and efficient delivery of public service. It encouraged agencies to adopt Information and Communications Technology (ICT)-enabled work and relevant tasks that can be performed remotely.

16.15 Further, the MC applies to all appointive officials and employees of government-owned and controlled corporations with original charter, regardless of the status of appointment. Given the said MC, NDC issued the Policy Guideline on Flexible Work Arrangements on July 29, 2022. The policy guidelines required all NDC employees to make themselves available under work-from-home arrangements.

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[17] COA Circular 2012-003 – Updated Guidelines for the Prevention and Disallowance of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable Expenditures.

16.16 The NDC Management allowed NDC employees to reimburse their communication expenses pursuant to Section 3.1 of the said MC. The NDC Management adopted the previously issued Inter-Office Memorandum (IOM) on the Guidelines on the Grant of Communication Allowance to NDC Officers and Employees to ensure that all amounts disbursed are accounted for. NDC employees were thus allowed to reimburse their communication-related expenses up to a certain threshold, subject to the submission of billing statements or receipts.

16.17 Management further commented that for the year 2021, the grant of communication allowance was likewise valid under Sections 3.1 (e) and 4.0 (e) of CSC MC 18, s, 2020, otherwise known as the "Amendment to the Revised Interim Guidelines for Alternative Work Arrangements and Support Mechanisms for Workers in the Government during the Period of State of Public Health Emergency due to COVID-19 Pandemic."

16.18 In addition, even before the implementation of the CPCS, certain NDC employees were already given a communication allowance. Given the legal basis under the law and pertinent rules, Management humbly submits that the grant of this allowance is proper.

ii. The Grant of Communication Allowance is Not an Irregular Expenditure

16.19 Management disagreed with the Audit Team that the communication allowance is an irregular expense. Accordingly, granting without conceding that the grant of communication allowance is not in accordance with the authority to implement CPCS issued by the GCG, the grant cannot be considered an irregular expenditure as there is neither a deviation from an established guideline nor a violation of appropriate rules.

16.20 As discussed above, the grant is sufficiently supported by pertinent CSC rules and regulations and NDC's internal guidelines. The NDC Management has likewise set safeguards to ensure transparency and accountability when releasing government funds.

16.21 Management informed that NDC's mandate requires its officers and employees to source projects that are pioneering and developmental in nature, whether internationally or locally. For this reason, NDC endeavors to adopt ICT infrastructures that allow it to connect with prospective investors and communicate NDC's purpose to them effectively. NDC also has a considerable number of assets all over the country. Hence, NDC's personnel constantly communicate with various stakeholders to carry out NDC's mandate.

16.22 Management finally commented that, in reality, the communication allowance is an out-of-pocket expense that may be reimbursed upon the submission of documentary proof since the employee would not have incurred the expense had it not been for the requirements of his employment. As aptly stated, the amount advanced by the concerned employee is a necessary consequence of the discharge of his duties. Therefore, the grant of communication allowance is not irregular, unnecessary, excessive, extravagant, or unconscionable.

16.23 The Audit Team finds Management's contention untenable. First, the NDC IOM was issued on May 5, 2022, before the issuance and effectivity of CSC MC No. 06, s. 2022 on June 6, 2022, and June 15, 2022, respectively. Clearly, the said MC had yet to be issued at the time of the issuance of NDC's guidelines on the grant of communication allowance. Thus, to say that the said MC is NDC's basis appears impossible.

16.24 Further, Management also mentioned CSC MC No. 18, s. 2020 as the basis for the grant of communication allowance. However, it is worth emphasizing that both CSC MCs are guidelines specifically for Alternative Work Arrangements. Pursuant to CSC MC No. 18, s. 2020, the Department of Budget and Management (DBM) issued Circular Letter (CL) No. 2021-7, providing interim general guidelines on the varying expenses of government agencies on communications. The CL provides the following:

"5.0 General Guidelines

5.1 Government employees who are duly authorized to report under the WFHA are entitled to request for reimbursement of internet/mobile data subscription expense.

5.2 The total reimbursable amount for internet/mobile data subscription expense per employee ***shall not exceed three hundred pesos (Php 300.00) per month****, using the following rationalized schedule:*

No. of Days on WFHA	*Rate*	*Maximum Amount (Php)*
1 to 5	*25%*	*75*
6 to 11	*50%*	*150*
12 to 16	*75%*	*225*
17 and more	*100%*	*300*

5.3 Xxx." (emphasis supplied)

16.25 Even assuming that the two CSC MCs were NDC's basis for granting communication allowance to NDC officers and employees, it is still subject to budgeting, accounting, and auditing rules and regulations. In this case, the reimbursable amount, based on the DBM CL, shall not exceed P300 per month. The said amount shall also be rationalized depending on the number of days the personnel are on work-from-home arrangement.

16.26 Finally, Management's claim that the two CSC MCs are their bases seems to be a mere afterthought. The NDC IOM provided the guidelines on the grant of communication allowance to NDC officers and employees but never mentioned any CSC MC. What is evident is that the IOM explicitly provided the CPCS Circular No. 2021-010 as their legal basis, to wit:

"A. LEGAL BASIS
On January 12, 2022, the Governance Commission for Government Owned or Controlled Corporations (GCG) issued CPCS Circular No. 2021-010, dated January 12, 2022. Based on the Circular, NDC is allowed to grant communication allowance to its officers and to certain employees for the discharge of their duties and responsibilities. In addition, NDC is required to issue an internal implementing rules, guidelines and/or procedures following the general guidelines and limitations prescribed in the Circular.

This Guidelines is being issued pursuant to the above requirement."

16.27 As discussed in AOM No. 2021-010 (21-23), the grant of communication allowance to NDC Officers and Employees amounting to P1.030 million was not in accordance with the authorization letter issued by the GCG. To reiterate, communication allowance requires the determination of the career band of the positions entitled to it since these require GCG's issuance of the final Job Evaluation (JE) results of the GOCCs.

16.28 Pending the issuance of final JE results, communication allowance shall be granted in accordance with the existing DBM and CSC issuances. However, Management could not establish the legal basis for granting the allowance. Further, the said allowance has no retroactive application.

16.29 Given the foregoing, we further recommended that management stop granting communication allowances to personnel who are not entitled to such allowances before the implementation of the CPCS until the GCG issues the final JE results. After that, upon the issuance of the final JE results, require the refund of communication allowances from those identified as not authorized to receive the allowance.

17. Payment for membership fees to private clubs amounting to P461,680 is considered an unnecessary expenditure under COA Circular No. 2012-003 dated October 29, 2012.

17.1 Section 4.1 of COA Circular No. 2012-003, dated October 29, 2012, defined Unnecessary Expenditures as:

> *"The term pertains to expenditures which could not pass the test of prudence of the diligence of a good father of a family, thereby denoting non-responsiveness to the exigencies of the service.* ***Unnecessary expenditures are those not supportive of the implementation of the objectives and mission of the agency relative to the nature of its operation.*** *This would also include incurrence of expenditure not dictated by the demands of good government, and those the utility of which cannot be ascertained at a specific time.* ***An expenditure that is not essential or that which can be dispensed without loss or damage to property is considered unnecessary.*** *The mission and thrusts of the agency incurring the expenditures must be considered in determining whether or not an expenditure is necessary."* (emphasis supplied)

17.2 A breakdown of the P461,680 membership fees paid to private clubs is presented below:

Table 18 - Membership Fees to Private Clubs

Club/Association	Membership fees
The Metropolitan Club Inc. (MCI) [6 active shares]	216,000
The MCI [32 inactive shares]	71,680
Manila Golf and Country Club, Inc. (MGCCI)	144,000
Makati (Sports) Club, Inc. (MSCI)	30,000
Philippine Columbian Association	0
Total	461,680

17.3 NDC owns membership shares in MGCCI and MSCI, with monthly membership dues of P12,000 and P2,500, respectively. NDC also has shares in the Philippine Columbian Association but pays no membership fees.

17.4 Moreover, NDC owns membership shares in MCI. Of the 38 shares outstanding from MCI, NDC pays monthly membership dues of P18,000 for six shares assigned to NDC officials. For the period covered from May 2023 to April 2024, a P71,680 inactive fee was paid for the remaining 32 shares. Maintaining these inactive shares is immoderate, can be dispensed without incurring loss, and does not accrue any benefit to NDC.

17.5 Further, one of the six active shares is still named after an official who retired on March 22, 2019. Per inquiry with Asset Management Group (AMG), the retiree does not use the membership account, and AMG is responsible for managing it. They also mentioned that the name transfer process is still ongoing.

17.6 The issue of club membership fees was first raised in an Audit Observation Memorandum (AOM) issued in calendar year 2016. In Management reply, they assured COA that disposal of all the club shares is included in the NDC program for divestment, which will be presented for approval to the Board of Directors (BOD).

17.7 In calendar year 2019, Management informed the Audit Team that the BOD approved the disposal of 32 inactive shares in MCI during their regular board meeting on July 6, 2018. A public bidding was conducted to dispose of the shares, but the bidding failed. A rebidding was scheduled for 2019, but Management decided to hold it in abeyance, including the MGCCI and MSCI shares, in anticipation of appreciation of the value of the shares.

17.8 Management reiterated their assurance that the disposal of all club shares is included in the NDC program for divestment and will be implemented once the Board's approval is secured. However, as of December 31, 2023, no attempts have been made to dispose of the club shares.

17.9 It is worth reiterating, as first mentioned in our 2016 AOM, that in COA Decision No. 1991-1991, dated November 4, 1991, the Commission disallowed the payments of membership fees of the President and Executive Vice-President of the Philippine Crop Insurance Corporation (PCIC) to the Club Filipino, a private organization. The said Decision further states:

> *"Well settled is the rule that public funds may be expended only for a public purpose. The incidental fact that such membership was sought to enable PCIC to make use of the facilities, particularly the function rooms, for its business-related activities, such as board meetings, public hearing, press conferences, as well as other social and civic functions, does not justify the use of public funds since the Club Filipino is a private organization (COA Circulars 85-55A and 89-300). In short, the expenditure in question would not fall under the concept of an expense for a public purpose."*

17.10 We recommended that Management provide justification for maintaining the subject club shares and submit documentation of the benefits derived therefrom.

17.11 Management commented that the retention of Club Shares as part of the NDC's investment properties offers strategic and financial benefits that outweigh the cost of the necessary fees relating to their maintenance. The club shares have the potential for significant capital appreciation.

17.12 Further, given the limited availability and high demand for prestigious club memberships, the value of these shares can increase substantially over time, providing NDC with a valuable asset that may be liquidated for profit in the future.

17.13 Furthermore, NDC is an investment company, and the access afforded by club shares enables networking and relationship-building opportunities that can be crucial for strategic partnerships.

17.14 On the other hand, Management commented that it will explore options for possible income generation besides disposing of these shares.

17.15 The Audit Team acknowledged Management's comments and requested the submission of a detailed cost-benefit analysis of maintaining said club shares.

18. The expired registration of the Collective Negotiation Agreement (CNA) of NDC-League of Employees for Excellence, Ardor, & Professionalism (NDC-LEAP) precludes the grant of CNA Incentive for calendar year (CY) 2023 amounting to P0.873 million, under Department of Budget and Management (DBM) Budget Circular (BC) No. 2023-1[18].

18.1 DBM Budget Circular No. 2023-1 provides the guidelines on the grant of CNA incentive for Fiscal Year 2023. Item 4.4.1(a) Section 4 of DBM BC No. 2023-01, states that:

> *"4.4.1 Payment of the CNA Incentive*
>
> *The FY 2023 CNA Incentive is a **<u>one-time benefit</u>** which shall be granted **not earlier than December 15, 2023** but **not later than December 31, 2023**.*
>
> *Xxx"* (emphasis supplied)

18.2 Relative thereto, the NDC granted CNA Incentives amounting to P0.873 million for CY 2023. Details of the grant are presented below:

Table 19 – List of CNA Incentives for FY 2023

Voucher No.	Date	Amount
12-26-23	12/21/2023	807,500
101-23-12-157	12/21/2023	20,000
101-23-12-158	12/21/2023	15,000
101-23-12-159	12/21/2023	25,000
101-24-01-125	01/18/2024	5,000
Total		**872,500**

[18] DBM Budget Circular No. 2023-1 dated November 10, 2023 – Guidelines on the Grant of Collective Negotiation Agreement (CNA) Incentive for FY 2023

18.3 Examination of the supporting documents attached to the vouchers disclosed that the NDC-LEAP's Certificate of CNA Registration No. 1712, dated July 11, 2019, is effective for the period covering March 1, 2019, to February 28, 2022.

18.4 The Audit Team inquired with the Civil Service Commission (CSC) on the existence and validity of the Certificate of Registration of CNA of the NDC-LEAP. The CSC confirmed the issuance to NDC-LEAP of CNA Registration No. 1712, dated July 11, 2019; however, it expired on February 28, 2022. Further, the CSC stated that they have not received any application for a new CNA registration from NDC or NDC-LEAP as of May 20, 2024.

18.5 DBM BC No. 2023-1 provides, as a condition for the grant of CNA Incentive, the existence of a valid and subsisting CNA. Item 4.1.1(a) Section 4 of DBM BC No. 2023-01, states that:

> *"4.1.1 Existence of CNA*
>
> > *(a) There should be a **valid and subsisting CNA** executed between the representatives of the management and the employees' organization accredited by the CSC as the sole and exclusive negotiating agent for the purpose of collective negotiations with the management of a department, line bureau, attached agency, Constitutional Office, SUC, GOCC, LWD, or LGU.*
> >
> > *In accordance with PSLMC Resolution No. 9, s. 2023, the registration by the employees' organization of its CNA with the CSC shall be a **condition precedent** for the grant of the CNA incentive. For this purpose, a Certificate of Registration shall be secured from the CSC.*
> >
> > *Xxx"* (emphasis supplied)

18.6 The preceding provision clearly states that the registration of a CNA with the CSC shall be a condition precedent for granting the CNA incentive. In other words, it is a requirement before the CNA incentive is granted. Thus, the grant of CNA Incentive for CY 2023, in the absence of a registered CNA, is contrary to the Circular requirement.

18.7 Management is reminded to be prudent and judicious in granting CNA incentives, given that NDC has already received disallowances from prior periods related to the disbursements of CNA incentives, which are inconsistent with the guidelines issued by the DBM. Section 7 of the same Circular states that the agency heads and accountable officers shall be responsible for proper implementation of the Circular. It provides the following:

> *"Agency heads and accountable officers shall be responsible for the proper implementation of the provisions of this Circular in their respective offices. They shall be held administratively, civilly, and/or criminally liable, as the case may be, for any payment of the CNA Incentive not in accordance with the provisions of this Circular, without prejudice to refund by the employees concerned of any unauthorized or excess payment thereof."*

18.8 **We recommended that Management:**

a. **Require the recipients of CNA Incentive for CY 2023 to refund the amount received; and**

b. **Renew CNA Registration with the CSC.**

18.9 Management commented that before the CNA expired on February 28, 2022, the NDC LEAP has requested the former to negotiate for the renewal of the CNA. However, the proposed negotiation did not materialize given the leadership changes with NDC. Thus, the parties considered the provision under Section 2, Article XIV of the CNA which provides that the terms and conditions of the CNA Agreement shall remain in force and effect during the negotiations for renewal or modification and/or until a new agreement has been signed.

18.10 Management added that the Public Sector Labor-Management Council (PSLMC) of the CSC took note of the fact that many CNAs have not been renewed on time due to various factors, such as the case of NDC, and as such, has issued PSLMC Resolution No. 1, s. 2022 promulgated on May 13, 2022, amending the lifetime of all CNAs in all agencies from three to four years lifetime.

18.11 Consequently, the lifetime of the duly registered CNA of the NDC-LEAP was automatically amended from February 28, 2022, to February 28, 2023, and extended to another year, or until February 28, 2024, by virtue of the said resolution.

18.12 In the meantime, the NDC Management – NDC-LEAP Consultative Council is finalizing the renewal of the CNA, which will be submitted to the CSC for registration once completed.

18.13 Management claims that PSLMC Resolution No. 1, s. 2022 covers their CNA. However, considering the date of signing and ratification of the CNA of NDC-LEAP in CY 2019 and its registration with CSC in the same year, it is still covered by PSLMC Resolution No. 1, s. 2014. Relative thereto, the CNA of NDC-LEAP shall in no case have a lifetime of more than three (3) years and may be extended only up to six months. Thus, the validity of their CNA may be extended from February 28, 2022, up to August 27, 2022.

18.14 Considering this, at the time of the grant of the CNA incentive for CY 2023, there is no valid and subsisting CNA between NDC and NDC-LEAP. The existence of a CNA is the most essential requirement in granting the CNA incentive since the privilege to receive it was stipulated in the agreement.

18.15 Additionally, even if there is an existing CNA, NDC failed to meet the requirement in Section 4.3.4(a) to **at least meet** the targeted operating income as of September 30, 2023, in the approved COB. NDC only reached 76 per cent of its targeted operating income.

18.16 Finally, the CNA incentive for CY 2022, which was granted in CY 2023, also has no basis since it was given after the expiration of the CNA. Management is reminded to be judicious in granting the CNA incentive, given that disallowances were already issued to NDC in prior years due to non-compliance with relevant DBM Circulars.

18.17 We maintained our recommendation that Management require the recipients of CNA incentives to refund the amount received in CY 2023.

GENDER AND DEVELOPMENT (GAD)

19. Non-submission to the Audit Team of the copy of the GAD Plan and Budget (GPB), as endorsed or reviewed by the Philippine Commission on Women (PCW), is contrary to PCW Memorandum Circular (MC) No. 2022-03 and precluded the conduct of the audit of GAD transactions for calendar year (CY) 2023.

19.1 Section 8.6 of PCW-National Economic and Development Authority-Department of Budget and Management 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)"*

19.2 Moreover, Section 1.2.5 of PCW MC No. 2022-03 dated August 31, 2022, on the Preparation and Online Submission of FY 2023 GPB, states that:

> *"1.2.5.1 PCW shall endorse the FY 2023 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.***
>
> *1.2.5.3 PCW-endorsed GPBs shall be authenticated by the Gender Mainstreaming Monitoring System (GMMS) with a QR code.* ***Agencies shall print the PCW-endorsed GPB for signature of their agency head, and disseminate the signed copy to their concerned units. Agencies shall also furnish their respective Commission on Audit (COA) Audit Team a copy of their signed GPB within 5 working days from its endorsement."*** (Emphasis supplied)

19.3 A review of the annual GPB approved by the chairperson of the NDC GAD Focal Point System (GFPS) showed that the NDC allocated a total amount of P85.190 million for GAD-related activities equivalent to 5.07 per cent of its operating budget amounting to P1.679 billion. However, PCW neither reviewed nor endorsed the GBP submitted.

19.4 The Audit Team requested a copy of GPB for CY 2023, reviewed or endorsed by PCW, but the same was not furnished. Also, the Audit Team requested for the timeline of submission of GPB and other GAD-related reports, but to no avail. We would like to remind that the GFPS is required to submit GAD-related reports or documents to COA pursuant to the PCW Memorandum Circular No. 2022-03 and other related rules and regulations.

19.5 We recommended that Management furnish the Audit Team with a copy of the PCW-reviewed or -endorsed GPB for CY 2023 and observe strict compliance with PCW Memorandum Circular No. 2022-03.

20. The allocated amount for GAD Programs, Activities, and Projects (PAPs) in CY 2023 was not fully utilized, with an unused balance of P85.087 million or 99.88 per cent at year-end, resulting in the non-implementation of GAD-related PAPs and attributed programs, which may have affected the agency's efficiency in addressing gender-related issues.

20.1 Audit of the utilization of GAD funds revealed that out of the P85.190 million GAD Budget for CY 2023 for client and organizational-focused and attributed GAD PAPs, only 0.12 per cent or P102,620 was utilized during the year, as presented below:

Table 20 - 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	74,810	(25,190)	74.81%
Organizational Focused	5	880,000	1	27,810	(852,190)	3.16%
Attributed Program	3	84,209,680	0	0	(84,209,680)	0%
Total	**9**	**85,189,680**	**2**	**102,620**	**(85,087,060)**	**0.12%**

20.2 A review of the GAD Accomplishment Report (AR) for CY 2023 revealed that only two out of nine PAPs and attributed programs included in the GPB were partially implemented.

20.3 As presented in Table 20, NDC implemented one GAD client-focused activity amounting to P74,810, which pertains to the cost of tarpaulin, a campaign poster posted on NDC's website, a film showing, an exploration tour at Fort Santiago and National Museum, and a lecture on the Safe Spaces Act (Republic Act No. 11313) and the Anti-Sexual Harassment Act of 1995 for the Campaign to End Violence Against Women and Children.

20.4 On the other hand, P27,810 was utilized for the organizational-focused activity, which pertains to the cost of tarpaulin, campaign posters posted on NDC's website, and film showing for the conduct of the Women's Month Celebration. Out of the five planned activities, only one was successfully implemented.

20.5 Also, a significant portion of the unutilized budget is ascribed 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 Harmonized Gender and Development Guidelines (HGDG) tool.

20.6 The underutilization of the GAD budget indicated that Management may not have addressed the gender issues included in the CY 2023 GPB, depriving the intended beneficiaries of benefits that may be derived from GAD PAPs.

20.7 **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 and attain the objectives for which funds were allocated.**

20.8 In relation to Observation No. 19, Management admitted the lapses noted in CY 2023. In this regard, Management invited a GAD Specialist expert from PCW to conduct orientation/reorientation to the members of GFPS-TWG. The orientation will focus on the use of HGDG for all attributed major programs indicated in NDC GPB for CY 2024. Accordingly, these adjustments are reflections of improvements being made in CY 2024.

20.9 The Audit Team will monitor subsequent actions of the Management, especially on maximizing the utilization of GAD funds.

21. 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.

21.1 COA Circular No. 2021-008, dated September 6, 2021, requires all government agencies to create/assign an RC for the GFPS to facilitate the generation of all reports pertaining to GAD-related expenses and other GAD-related financial transactions and to monitor and properly account for the GAD funds.

21.2 Further, Section 4.9 of the same Circular provides that Government entities using a 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, traveling 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.

21.3 Audit of GAD AR showed that the actual expenses for CY 2023 amounted to P102,620. However, the recorded GAD expenses per SL is P147,680, hence a discrepancy of P45,060. Despite NDC having a designated SL for GAD-related expenses, programs, activities, and projects, the total amount indicated in the SL did not match the actual amount of expenses reported in the GAD AR. The discrepancy could have been mitigated had NDC established its own RC for the GFPS. This would facilitate the generation of all reports pertaining to GAD-related expenses and other

GAD-related financial transactions, as well as enable effective monitoring and proper accounting of the GAD funds.

21.4 **We reiterated our prior year's recommendation and Management agreed to adhere to the requirements of COA Circular No. 2021-008 dated September 6, 2021, by creating/assigning a Responsibility Center for the GFPS to ensure proper accounting, monitoring, and reporting of GAD expenses and other GAD-related financial transactions.**

COMPLIANCE WITH TAX LAWS

22. Taxes withheld and due to the Bureau of Internal Revenue for CY 2023 were recorded and remitted within the prescribed period.

COMPLIANCE WITH RULES ON GOVERNMENT MANDATORY DEDUCTIONS AND REMITTANCES

23. For CY 2023, the appropriate premium contributions and loan amortizations were deducted from the salaries of the employees of NDC. Employees' shares, together with the government share as well as the loan amortizations of employees, were remitted to the Government Service Insurance System (GSIS), Philippine Health Insurance Corporation (PHIC), and Home Development Mutual Fund (HDMF) within the prescribed period. The remittances for CY 2023 are as follows:

Table 21 - GSIS, PHIC, and HDMF amortizations and remittances

Particulars	Amount
GSIS contribution and loan amortization	7,903,441
PHIC contribution	880,073
HDMF contribution and loan amortization	400,293
Total	**9,183,807**

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

24. As of December 31, 2023, 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 22 - Summary of Audit Suspensions, Disallowances and Charges

	Balances as of January 1, 2023	Issued during the year	Settled during the year	Balances as of December 31, 2023
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**

24.1 The details of the NDs are shown below:

Table 23 - 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 the Supreme Court on May 9, 2011

** With COA Order of Execution dated February 6, 2014

*** With COA Order of Execution dated July 26, 2017, and with Petition for Review dated October 5, 2017, to COA Commission Proper

**** Pending resolution by the COA Commission Proper pursuant to Rule V, Section 7 of the Revised Rules of Procedure of COA

***** With Corporate Government Sector Cluster 4 Decision No. 2020-07 dated June 19, 2020

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 77 audit recommendations embodied in the prior year's Annual Audit Report (AAR), 45 were fully implemented/reconsidered, and the remaining 32 that were not implemented are reiterated in Part II of this Report. Details are presented below:

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2022 AAR Observation No. 1, page 64	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.	a. Exert utmost effort to expedite the titling of these untitled lands in NDC's name to establish rights and ownership over said properties; and	Not implemented. The observation is reiterated in Part II, No. 8 of this Report.
		b. 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.	Not implemented. The recommendation is reiterated in Part II, No. 7 of this Report.
2022 AAR Observation No. 2, page 67	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	a. Instruct the Disposal Committee to undertake immediate disposal of idle and unserviceable PE items to avoid further deterioration and devaluation of the same;	Not implemented. The observation is reiterated in Part II, No. 3 of this Report.
		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	Not implemented. The observation is reiterated in Part II, No. 3 of this Report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	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.	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;	Not implemented. The observation is reiterated in Part II, No. 3 of this Report.
		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	Not implemented. The observation is reiterated in Part II, No. 3 of this Report.
		e. Direct the Administrative and Accounting Units to determine the source of the "Miscellaneous" PE items and provide a detailed breakdown for the same.	Not implemented. The observation is reiterated in Part II, No. 3 of this Report.
2022 AAR Observation No. 3, page 70	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	a. Review the recording of monthly accrual based on the noted variances, reconcile with the corresponding lessees, and prepare adjusting entries, if warranted;	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	the balance per books and confirmed balances of the accounts with various lessees.	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	Implemented.
		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.	Not implemented. The observation is reiterated in Part II, No. 2 of this Report.
2022 AAR Observation No. 4, page 73	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.	a. Evaluate and analyze all recorded payables that 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;	Implemented.
		b. Conduct a thorough review of LMC's account which has a negative/abnormal balance and prepare necessary adjustments to correct the same; and	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		c. Henceforth, conduct periodic monitoring of payable accounts to ensure the reliability of the balance for fair presentation in the financial statements.	Implemented.
2022 AAR Observation No. 5, page 75	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.	a. Require the Accounting Unit to expedite the gathering of records to reconcile with the Finance Office, COA-Planning, Finance and Management Sector (COA-PFMS) for the difference between the assessment billed and the actual cost of audit services incurred and prepare adjusting entries, if warranted;	Not implemented. The observation is reiterated in Part II, No. 5 of this Report.
		b. Remit the balance of the cost of audit services due to COA through the Bureau of the Treasury, and furnish the Finance Office, COA-PFMS, a copy of proof of remittance for easy reference and reconciliation between NDC's and COA's records, if any; and	Not implemented. The observation is reiterated in Part II, No. 5 of this Report.
		c. Henceforth, conduct periodic monitoring and reconciliation of records between NDC and COA on the cost of audit services.	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2022 AAR Observation No. 6, page 77	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.	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.	Reconsidered. Implemented.
2022 AAR Observation No. 7, page 78	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.	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.	Not Implemented. The observation is reiterated in Part II, No. 4 of this Report.
2022 AAR Observation No. 8, page 80	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	a. Continuously coordinate with 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	Not implemented. The observation is reiterated in Part II, No. 6 of this Report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	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.	and the corresponding compensation thereof; b. Consider the inclusion of legal interest in the computation of the compensation price for the property covered in the ROW acquisition for the 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.	 Reconsidered. Not implemented. The observation is reiterated in Part II, No. 6 of this Report.
2022 AAR Observation No. 9, page 86	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.	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	Implemented. Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		compliance with the Catch-Up Plan PERT-CPM and Revised Work Schedule as planned; and	
		c. Henceforth, direct the TWG of the NDC Bids and Awards Committee (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.	Reconsidered.
2022 AAR Observation No. 10, page 89	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.	a. Communicate with the Manila Gas Corporation (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;	Implemented.
		b. Make representation to the Inter-Island Gas Service, Inc. (IIGSI) Board of Trustees to prioritize the disposal of the remaining property of IIGSI, and if the sale does not	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		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 NDC – Philippine Infrastructure Corporation (NPIC) as a vehicle for the implementation of the GIF project, considering the prolonged period of inactivity;	Implemented.
		d. Submit status/update on the request for revocation of the MO on the abolition of First Cavite Industrial Estate, Inc. (FCIEI) and assess the viability of utilizing FCIEI as a vehicle for implementing the NDCIE project;	Implemented.
		e. Assess the feasibility of pursuing the purchase of GPI's 40 per cent share in GY Real Estate, Inc. (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	Not implemented. The observation is reiterated in Part II, No. 12 of this Report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		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.	 Not implemented. The observation is reiterated in Part II, No. 13 of this Report.
2022 AAR Observation No. 11, page 95	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.	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	Not implemented. The observation is reiterated in Part II, No. 10 of this Report. Reconsidered.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		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.	Implemented.
2022 AAR Observation No. 12, page 100	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.	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;	Not implemented. The observation is reiterated in Part II, No. 15 of this Report.
		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;	Not implemented. The observation is reiterated in Part II, No. 15 of this Report.
		c. Expedite the process of acquiring the properties under NDC's name for the two accounts with certificate of sale;	Not implemented. The observation is reiterated in Part II, No. 15 of this Report.
		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	Not implemented. The observation is reiterated in Part II, No. 15 of this Report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		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.	Not implemented. The observation is reiterated in Part II, No. 15 of this Report.
2022 AAR Observation No. 13, page 103	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.	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;	Not implemented. The observation is reiterated in Part II, No. 7 of this Report.
		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;	Not implemented. The observation is reiterated in Part II, No. 7 of this Report.
		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	Not implemented. The observation is reiterated in Part II, No. 7 of this Report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		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".	 Reconsidered.
2022 AAR Observation No. 14, page 108	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.	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.	Not implemented. The observation is reiterated in Part II, No. 7 of this Report.
2022 AAR Observation No. 15, page 111	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.	Intensify efforts in converting these land assets into income-generating properties and expedite the process of disposing of the properties scheduled for disposal.	Not implemented. The observation is reiterated in Part II, No. 7 of this Report.
2022 AAR Observation No. 16, page 113	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	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	Implemented. Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	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.	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;	Implemented.
		d. Submit the lacking documents needed for technical evaluation of the contract in order to determine the reasonableness of the contract amount;	Implemented.
		e. Explain why the contract and Notice to Proceed (NTP) were not posted on Philippine Government Electronic Procurement System (PhilGEPS) and NDC websites; and	Implemented.
		f. Henceforth, comply with the relevant provisions of the RIRR of RA No. 9184 in conducting Negotiated Procurement-Emergency Cases.	Implemented.
2022 AAR Observation No. 17, page 120	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	Formulate an internal policy/guideline to standardize procurement process timeline for procurements thru alternative methods, with the end view of avoiding	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	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.	delays, thus, promoting economy and efficiency in the day-to-day operation of NDC.	
2022 AAR Observation No. 18, page 122	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.	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.	Implemented.
2022 AAR Observation No. 19, page 123	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.	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.	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2022 AAR Observation No. 20, page 124	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.	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.	Implemented. Not implemented.
2022 AAR Observation No. 21, page 127	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.	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,	Implemented. Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		incentives and other entitlements.	
2022 AAR Observation No. 22, page 128	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.	a. Submit justification for granting/approving payments of overtime services in lieu of compensatory time-off;	Implemented.
		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;	Implemented.
		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;	Implemented.
		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;	Implemented.
		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	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		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.	 Implemented.
2022 AAR Observation No. 23, page 132	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.	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.	Implemented. Implemented.
2022 AAR Observation No. 24, page 135	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	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	Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	the Audit Team in conducting timely review and evaluation thereof.	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.	Not implemented. The observation is reiterated in Part II, No. 14 of this Report.
2022 AAR Observation No. 25, page 137	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.	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.	Implemented. Implemented.
2022 AAR Observation No. 26, page 138	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.	a. Instruct the GAD Focal-Point System-Technical Working Group (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	Not implemented. The observation is reiterated in Part II, No. 19 of this Report. Implemented.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		enable them to effectively plan the GPB and ensure that planned PAPs are designed to address GAD issues.	
2022 AAR Observation No. 27, page 139	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.	a. 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. b. Provide justification why the budget for the COVID-19 Response Program was overutilized by P2.760 million.	Not implemented. The observation is reiterated in Part II, No. 20 of this Report. Implemented.
2022 AAR Observation No. 28, page 140	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.	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.	Implemented.
2022 AAR Observation No. 29, page 141	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	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,	Not implemented. The observation is reiterated in Part II, No. 21 of this Report.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	compliance with COA Circular No. 2021-008 dated September 6, 2021.	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.	 Not implemented. The observation is reiterated in Part II, No. 21 of this Report.