Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

DBP DATA CENTER, INC.

(A wholly-owned subsidiary of Development Bank of the Philippines)

For the year ended December 31, 2008

EXECUTIVE SUMMARY

INTRODUCTION

DBP Data Center, Inc. (DCI), formerly known as Development Bank Data Center, Inc., is a wholly-owned subsidiary of the DBP created under DBP Board Resolution No. 3172 dated October 6, 1982 and registered with the Securities and Exchange Commission (SEC) per Registry No. 107887 dated October 26, 1982. Its operations started in November 1982 with the primary purpose of implementing the computerization program of DBP. DCI is equipped with this experience in banking systems and facilities management. DCI ventured towards the development and implementation of non-banking systems for private and government entities as well.

On December 7, 2007, the DCI Board of Directors upheld the new corporate direction of DBP Data Center, Inc. to focus and channel its operations towards providing IT services for DBP and its various subsidiaries.

The Corporation's registered office is located at Senator Gil J. Puyat Avenue corner Makati Avenue, Makati City.

At the helm of DCI is Mr. Clarito L. Magsino as President and Chief Executive Officer.

As of December 31, 2008, DCI had a total manpower of 107 including six contractual personnel.

The Corporation's approved operating budget for 2008 is P79.041 million.

FINANCIAL HIGHLIGHTS

Financial Position (In Philippine Peso)

	2008	2007	Increase (Decrease)
Assets	71,057,909	89,009,233	(17,951,324)
Liabilities	26,315,656	45,916,818	(19,601,162)
Stockholder's Equity	44,742,253	43,092,415	1,649,838

Results of Operations (In Philippine Peso)

	2008	2007	Increase (Decrease)
Income	84,280,561	101,491,414	(17,210,853)
Expenses	82,910,723	102,443,240	(19,532,517)
Net Income (Loss)	1,369,838	(951,826)	2,321,664

SCOPE OF AUDIT

We performed an audit of the Corporation's transactions and accounts covering the period January 1- December 31, 2008 to be able to express an opinion on the financial statements for the year ended December 31, 2008 in accordance with the applicable Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS) and other pertinent laws, rules and regulations.

AUDITOR'S OPINION

The Auditor rendered an unqualified opinion on the fairness of presentation of the financial statements of DCI for CY 2008.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The audit observations which were discussed with Management are as follows:

1. The recorded cost of Property and Equipment as of December 31, 2008 amounting to P28.775 million was not reconciled with the physical inventory list due to lack of information on individual cost and totals for each category, contrary to DCI Policy Statement No. GSD.E.3.4, thereby casting doubt on the reliability of the account balances.

We recommended and Management agreed to configure the inventory system to show the individual cost and the totals for each category and reconcile the same with the GL balances.

2. Six accountable officers were not bonded, contrary to the Bureau of Treasury and COA regulations governing the fidelity bonding of government officials and employees.

We recommended and Management agreed and committed to secure additional bond for other accountable officers.

3. The corresponding depreciation expense of the vehicles donated by DBP to DCI in April 2007 was not computed and recorded due to the absence of the remaining life of the assets in the appraisal report, contrary to PAS 16.

We recommended that Management require the estimation of the remaining useful life of the vehicles and record the corresponding depreciation in its books to conform with PAS 16.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the two prior year's audit recommendations, one was fully implemented and the other was partially implemented.

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PART I – AUDITED FINANCIAL STATEMENTS

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Corporate Government Sector
Cluster A – Financial

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
DBP Data Center, Inc.
Makati City

We have audited the accompanying financial statements of **DBP Data Center, Inc. (DCI),** which comprise the balance sheet as at December 31, 2008, and the statement of income and retained earnings, statement of changes in stockholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the DBP Data Center, Inc. as at December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT:

MA. TERESITA R. GOJUNCO
Supervising Auditor

April 30, 2009

DBP DATA CENTER, INC.
(A wholly-owned subsidiary of Development Bank of the Philippines)
BALANCE SHEET
December 31, 2008
(In Philippine Peso)

	Note	2008	2007 (As Restated)
ASSETS			
Current assets			
Cash and cash equivalents	4	10,273,408	7,471,471
Receivables - net	5	37,021,853	54,214,140
Prepaid expenses	6	257,231	733,232
		47,552,492	62,418,843
Non-current assets			
Property and equipment -net	7	12,577,677	14,752,290
Other assets-net	8	10,927,740	11,838,100
		23,505,417	26,590,390
TOTAL ASSETS		71,057,909	89,009,233
LIABILITIES AND EQUITY			
Current liabilities			
Customer's deposit		2,548,838	13,517,006
Accrued expenses		563,943	569,478
Other payables	9	10,951,851	21,076,671
		14,064,632	35,163,155
Non-current liabilities			
Vacation/sick leave payable		3,293,472	3,624,700
Past service pension cost payable		8,957,552	7,128,963
		12,251,024	10,753,663
		26,315,656	45,916,818
Stockholders' equity			
Capital stock	10		
Authorized, issued and outstanding - 50,000 shares, P100 par value		5,000,000	3,750,000
Donated capital		280,000	-
Retained earnings	11	39,462,253	39,342,415
		44,742,253	43,092,415
TOTAL LIABILITIES AND EQUITY		71,057,909	89,009,233

The Notes on pages 7 to 19 form part of these financial statements.

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DBP DATA CENTER, INC.

(A wholly-owned subsidiary of Development Bank of the Philippines)

STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31, 2008

(In Philippine Peso)

	Note	2008	2007 (As Restated)
INCOME			
Outsourcing services		53,265,949	53,489,510
Systems integration services		30,787,056	47,862,891
Others		2,200	18,614
		84,055,205	101,371,015
EXPENSES			
Salaries, allowances and benefits	12	54,112,007	56,946,561
Service fees		14,327,263	30,750,065
Rent and utilities		6,031,503	6,136,971
Depreciation/amortization		3,442,573	3,944,234
Professional fees		1,699,651	1,571,748
Taxes and licenses	15	804,991	929,997
Transportation/travel		497,961	643,575
Provision for probable losses	15	480,960	40,000
Office supplies		380,409	373,223
Representation		108,455	185,159
Repairs and maintenance		92,378	138,230
Miscellaneous		316,312	783,477
		82,294,463	102,443,240
EARNINGS BEFORE INTEREST AND TAXES		1,760,742	(1,072,225)
Add: Interest income		225,356	120,399
Earnings before taxes		1,986,098	(951,826)
Provision for income tax		616,260	-
NET INCOME/(LOSS)		1,369,838	(951,826)
Add: Retained earnings, beginning		39,342,415	40,294,241
Less: Stock dividend declaration	11	1,250,000	-
RETAINED EARNINGS, END		39,462,253	39,342,415

The Notes on pages 7 to 19 form part of these financial statements.

DBP DATA CENTER, INC.
(A wholly-owned subsidiary of Development Bank of the Philippines)
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
December 31, 2008
(In Philippine Peso)

		Common Stock		Retained	
	Note	**Shares**	**Amount**	**Earnings**	**Total**
Balance, December 31, 2006		37,500	3,750,000	32,112,423	35,862,423
Prior Period Adjustments				8,181,818	8,181,818
Net loss for the year				(951,826)	(951,826)
Balance, December 31, 2007		37,500	3,750,000	39,342,415	43,092,415
Additional paid-up capital		12,500	1,250,000	(1,250,000)	-
Additional paid-up capital (donated vehicle)	10		280,000		280,000
Net income for the year				1,369,838	1,369,838
Balance, December 31, 2008		50,000	5,280,000	39,462,253	44,742,253

The Notes on pages 7 to 19 form part of these financial statements.

DBP DATA CENTER, INC.
(A wholly- owned subsidiary of Development Bank of the Philippines)
CASH FLOW STATEMENT
For the year ended December 31, 2008
(In Philippine Peso)

	Note	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		75,949,861	82,056,403
Other income received		2,200	18,614
Interest income received		225,356	120,399
Payments to suppliers		(10,124,820)	(4,602,142)
Payments for operating expenses		(61,661,395)	(68,064,225)
Payment for income tax		(616,260)	-
Payment for other assets		(910,360)	(4,142,389)
Net cash provided by operating activities		2,864,582	5,386,660
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of computer equipment and office furnitures		(62,645)	(877,521)
Net cash used in investing activities		(62,645)	(877,521)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of interest on borrowings		-	(325,781)
Payments of borrowings		-	(2,941,611)
Net cash used in financing activities		-	(3,267,392)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,801,937	1,241,747
CASH AND CASH EQUIVALENTS, beginning of year		7,471,471	6,229,724
CASH AND CASH EQUIVALENTS, end of year	4	10,273,408	7,471,471

The Notes on pages 7 to 19 form part of these financial statements.

DBP DATA CENTER, INC.
(A wholly-owned subsidiary of Development Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
(Amounts in Philippine Peso unless otherwise stated)

1. GENERAL/CORPORATE INFORMATION

DBP Data Center, Inc. (DCI), formerly known as Development Bank Data Center, Inc., is a wholly-owned subsidiary of DBP created under DBP Board Resolution No. 3172 dated October 6, 1982 and registered with the Securities and Exchange Commission (SEC) per Registry No. 107887 dated October 26, 1982. Its operations started in November 1982 with the primary purpose of implementing the computerization program of DBP. DCI is equipped with this experience in banking systems and facilities management. DCI ventured towards the development and implementation of non-banking systems for private and government entities as well.

On December 7, 2007, the DCI Board of Directors upheld the new corporate direction of DBP Data Center, Inc. to focus and channel its operations towards providing IT services for DBP and its various subsidiaries.

The Certificate of Increase in Capital Stock of DBP DCI from P5.000 million to P50.000 million, was approved by SEC on April 3, 2009.

The Corporation's registered office is located at Senator Gil J. Puyat Avenue corner Makati Avenue, Makati City.

As of December 31, 2008, DCI had a total manpower of 107 including six contractual personnel.

The President/Chief Executive Officer, pursuant to the authority granted to it by the Board of Directors of the DBP, has reviewed and approved the release of the accompanying comparative financial statements on April 23, 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statements preparation

The accompanying financial statements are prepared on the historical cost basis. The Corporation adopts a more appropriate presentation and classification of expenses in the financial statements to conform with the usual format used by a service company in the IT industry. Further, this new presentation is more relevant to its users.

Statement of compliance

These financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines as set forth in the Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRS/PAS). The preparation of the financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policy.

The Corporation has adopted the following accounting standards which are relevant to its operations:

PFRS 7 Financial Instruments Disclosures. This PFRS introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity to market risk. It replaced PAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and those required under PAS 32, Financial Instruments: Disclosure and Presentation. The new disclosures under PFRS are required to be made for all periods presented.

PAS 1 Presentation of Financial Statements, prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities; allows presentation of assets and liabilities in order of liquidity.

PAS 7 Cash Flow Statement requires the provision of information about the historical changes in cash and cash equivalents of the Corporation by means of presenting the flows of cash from operating, investing and financing activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the Corporation.

PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, prescribes the criteria for selecting and changing accounting policies, changes in accounting estimates and corrections of errors.

PAS10 Events After the Balance Sheet Date, defines events after balance sheet date known as subsequent events which may be favorable or unfavorable and may either require adjustment or disclosure.

PAS 12 Income Taxes, prescribes the accounting treatment for income taxes whether current or future depending on the probability of occurrence.

PAS 16 Property, Plant and Equipment (PPE), addresses the principal issues in accounting for PPE which are the recognition of the assets, the determination of their carrying amounts and the depreciation charges.

PAS 17 Lease, an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. It is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership while an operating lease does not transfer substantially all the risks and rewards incidental to ownership.

PAS 19 Employee Benefits, provides for the accounting of long-term and other employee benefits. It requires the use of projected unit credit method in determining

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the retirement benefits of the employees and change in the manner of computing benefit expense relating to past service cost.

PAS 24 Related Party Disclosures, ensures that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

PAS 33 Earnings per share. An entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. Basic earnings per share will provide a measure of the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period.

PAS 36 Impairment of Assets. This PAS prescribes the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more that its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Standard requires the entity to recognize an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

PAS 38 Intangible Assets. This PAS requires discontinuance of amortization of intangible assets with an indefinite useful life. The effect of adopting this standard will not result in retroactive adjustment of prior year's financial statements but will effect prospective financial statements as a result of non-amortization. DCI is not implementing this PAS. It uses the Intangible assets with finite useful lives and with no reduction of residual value.

PAS 39 Financial Instruments: Recognition and Measurement, establishes the accounting and reporting standards for the recognition and measurement of the company's financial assets and liabilities.

Functional and presentation currency

Items included in the financial statements of the Corporation are measured using the currency of the primary economic environment in which the Corporation operates. The FS are presented in Philippine pesos.

Financial assets

Financial assets include cash and financial instruments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments are acquired.

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Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents consist of cash and other cash items on hand, bank deposits and short-term highly liquid investments readily convertible to cash and which are subject to insignificant risk of changes in value.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Corporation provides goods or services directly to the debtor.

Trade receivables represent actual billings to DBP and other clients for services rendered.

Non-trade receivables represent collectibles from employees and other persons liable to the Corporation for services rendered not related to the nature of its business.

All financial assets are recognized on their trade date.

Non-financial assets

Property and equipment

Property and equipment are stated at cost and depreciated based on a straight-line method over the estimated useful life of the assets. Amount subject for depreciation is net of 10% residual value. The costs of leasehold improvements are amortized based on a straight-line method over the estimated useful life of the improvements, or term of the lease (5 years). The estimated useful life of the Corporation's property and equipment are as follows:

Computer equipment - 5 years
Furniture & fixtures - 5 years
Office machine & equipment - 5 years
Transportation equipment - 5 years
Leasehold improvements - 20 years

Major repairs and maintenance are capitalized. Minor expenditures for replacement, maintenance and repairs are expensed as incurred.

Intangible assets

Intangible assets (included under Other Assets) represent cost of software licenses and system development and maintenance. Intangible assets are measured at cost and amortized based on a straight line method with an expected useful life as follows:

Computer software license - 1-3 years
System development and maintenance - 1-3 years

Vacation/sick leave payable

This account controls the accrued leave credits of DCI employees. Leave credits are commuted upon separation of the employees from the service.

The Retirement Gratuity Plan is designed to recognize the faithful and satisfactory service of DCI employees and to provide timely financial assistance upon their separation from the service. Revaluations are done based on the updated manning complement. The Gratuity Plan was provided by DCI through the setting up of the past service liability and the normal cost. On June 1, 1998, a Memorandum of Agreement was entered into by and between DCI, the Trustor and DBP-Trust Department, the Trustee. Under the said agreement, a Trust Fund was created for the primary purpose of paying the benefits of the members of DCI retirement plan. The Trustee shall manage and administer the Trust Fund. As of December 31, 2008, the fund has an outstanding value of P 2,220,097.96.

Every month, the Corporation provides a pension expense and the corresponding liability equivalent to 1/12 of the monthly salary of all active regular employees. Eventually, the allocated liability is transferred to DCI Retirement Fund being administered by DBP Trust Department.

Operating lease

The lease entered by the Corporation is on operating lease. Operating payments are recognized as expense in the income statement on a straight line basis over the period of the lease (5 years). The rental rate then prevailing shall automatically and immediately increase by five percent (5%), without any need of prior notice or demand, after the end of the second year of the lease period.

Income and expense

The Corporation adopts the accrual method of accounting for income and expenses. Sales revenue is booked at gross amount. On the other hand, expenses include salaries, allowances and benefits of personnel assigned to projects. Further, service fees include payments to business partners, directly hired contractuals and contractuals hired through IT agencies related to every project (considered sub-contractors).

Taxes

Current tax assets/liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the balance sheet date.

3. RISK MANAGEMENT

The Corporation is exposed to various forms of risks. These risks can be grouped into credit, market, liquidity and operational risks. In managing these risks, the approach is not always risk minimization but managing risks to make an optional contribution to company revenues.

Credit risk

Credit risk is the risk that the Corporation will incur a loss because its clients, customers or counterparties will fail to discharge their contractual obligations. Acceptance of projects from agencies/clients is based on criteria that the Board of Directors and Management continuously review and improve based on on-going analyses of agency/client behavior. The objective is to continuously improve the Corporation's portfolio quality. Management carefully manages its exposure to credit risk. Project proponents' payment attitude is being evaluated for future engagements.

Below is the tabulation of uncollected receivables as of December 31, 2008 with remarks:

Project	Amount	Remarks
Insurance Commission	760,000	This is a service level agreement. The new Commissioner is hesitant to acknowledge their payable and the validity of the contract that the ex-Commissioner entered into. A demand letter from the Company legal counsel was issued to Insurance Commission.
Civil Service Commission	5,143,300	These are billings for the final acceptance of Phase A & B projects. The Commission is waiting for the roll out of the project. A new agreement was entered into per letter of CSC dated January 19, 2009.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of short-term investments which could be used to secure additional funding if required. Further, the Corporation limits its engagement in short-term projects to facilitate inflows of cash.

Below is the asset-liability gap analysis for the year 2008:

	Up to 3 mos.	Over 3-6 mos.	Over 6 mos-1 yr	Over 1-5 yrs	Total
Assets:					
Petty Cash Fund	10,000				10,000
Due from other banks	10,263,408				10,263,408
Receivables		27,280,155	9,741,698		37,021,853
Prepaid expenses			257,231		257,231
Property & equipment.				12,577,677	12,577,677
Other assets				10,927,740	10,927,740
	10,273,408	27,280,155	9,998,929	23,505,417	71,057,909
Liabilities:					
Current liabilities		14,064,632			14,064,632
Non-current Liabilities				12,251,024	12,251,024
		14,064,632		12,251,024	26,315,656
Asset-liability gap	10,273,408	13,215,523	9,998,929	11,254,393	44,742,253

Market risk

The Corporation's exposure to market risk would be the amendment of Government Procurement Policy Board (GPPB) Resolution No. 03-2007 amending Section 53(e) of IRR-A of RA 9184 to include infrastructure projects and consulting services. This section states that negotiated procurement shall be allowed in the procurement of consulting services and goods from another agency of the Government, such as the Procurement Service-Department of Budget and Management, the Office tasked with a centralized procurement of commonly used Goods for the government in accordance with Letters of Instruction No. 755 and Executive Order No. 359, series of 1989. For purposes of this paragraph, the term agency shall exclude GOCC incorporated under Batas Pambansa Blg. 168, otherwise known as the Corporation Code of the Philippines. RA 9184 is a law enacted to govern government dealings with private sector contractors and if such is the scope of the law, it should not cover government dealings with other government agencies such as DCI. The amendment will adversely affect DCI's position in the Information Technology market industry dealing with government agencies as DCI will have to undergo bidding process and compete head on with the private sector but still subjected to various government restrictions. Since the implementation of this amendment, DCI has foregone prospective projects such as:

Project	Estimated Total Contract Value
Information Systems Strategic Plan Formulation	2,480,000
Patch Management Project	4,850,000
Import System	1,500,000
Electronic Property Supply and Management System	2,500,000
	11,330,000

During the year, DCI refocused its efforts in the delivery of DBP Service Level Agreement (SLA) and DBP projects while winding down on non-DBP projects carried over from 2007.

Operational risk

Operational risk is the risk of loss arising from the systems failure, human error, omission, inefficiency, unauthorized activities, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Corporation cannot expect to eliminate all operational risks, but through a control framework that is monitoring and responding to potential risks, the Corporation is able to manage the risks. Controls include effective segregation of duties, authorized access, authorization and reconciliation procedures, staff education and assessment processes. Further, a comprehensive business continuity and recovery plan is in place to mitigate this risk.

4. CASH AND CASH EQUIVALENTS

Included in this account are the following:

	2008	2007
Cash in banks	6,960,751	7,461,471
Petty cash fund	10,000	10,000
Investments/placements	3,302,657	-
	10,273,408	7,471,471

Considered cash equivalents are investment/placements at DBP Trust Services on short-term or temporary investments and placements of excess cash purchased with a maturity of three (3) months or less from date of acquisition.

5. RECEIVABLES

This account consists of the following:

	2008	2007
Trade	19,597,842	49,156,118
Non-trade	17,904,971	5,058,022
	37,502,813	54,214,140
Allowance for probable losses	(480,960)	-
	37,021,853	54,214,140

6. PREPAID EXPENSES

This account consists of the following:

	2008	2007
Insurance	152,450	570,913
Unused supplies	104,781	162,319
	257,231	733,232

7. PROPERTY AND EQUIPMENT

This account consists of the following:

	Computer Equipment	Office Machine & Equipment	Leasehold Improve-ments	Furniture & Fixtures	Transpor-tation Equipment	Total
Cost January 1, 2008	18,045,293	1,137,629	5,211,225	4,220,997	828,800	29,443,944
Addition	48,359	14,286	-	-	280,000	342,645
Adjustment	(665,474)	(189,063)	-	(156,720)	-	(1,011,257)
Cost December 31, 2008	17,428,178	962,852	5,211,225	4,064,277	1,108,800	28,775,332
Accumulated Depreciation January 1, 2008	11,512,507	846,465	-	1,679,660	653,022	14,691,654
Depreciation	1,341,041	115,627	245,083	686,361	21,438	2,409,550
Adjustment	(601,641)	(161,532)	-	(140,377)	-	(903,549)
Accumulated Depreciation December 31, 2008	12,251,907	800,560	245,083	2,225,644	674,460	16,197,655
Net Book Value December 31, 2008	5,176,271	162,292	4,966,142	1,838,633	434,340	12,577,677
Net Book Value December 31, 2007	6,532,786	291,164	5,211,225	2,541,337	175,778	14,752,290

8. OTHER ASSETS

The details of this account are as follows:

	2008	2007
Refundable deposit	-	110,245
Rental deposit	1,378,182	1,378,182
Computer equipment – in transit	5,352,565	3,909,336
Computer software – in transit	3,173,800	4,782,987
Miscellaneous assets – Commerceworks, Inc.	33,650	33,650
Miscellaneous assets – PLDT	7,500	7,500
Intangibles (computer software)	982,043	1,616,200
	10,927,740	11,838,100

Intangibles are software costs accounted for as follows:

	2008	2007
Balance at beginning of year	1,616,200	1,875,696
Additions	398,865	216,067
Amortization	(1,033,022)	(475,563)
Balance at end of year	982,043	1,616,200

9. OTHER PAYABLES

This account includes the Corporation's various short-term liabilities to suppliers, business partners and government agencies, such as Bureau of Internal Revenue (withholding taxes, income taxes, value added taxes, SSS contributions and loans), Home Development Mutual Fund (contributions and loans) and others.

The details of this account are as follows:

	2008	2007
Suppliers/creditors	7,383,644	19,176,816
Bureau of Internal Revenue	2,270,074	954,009
Employee benefit fund	382,186	382,186
Government remittances	323,884	301,078
Others	592,063	262,582
	10,951,851	21,076,671

10. CAPITAL STOCK

Capital stock represents the nominal value of common shares issued and outstanding. The Authorized Capital Stock amounts to P5.000 million representing 50,000 shares at P100.00 par value. Capital Stock issued and outstanding as of December 31, 2008 amounts to P5.000 million or 50,000 shares.

Further, the Development Bank of the Philippines donated two units of fully depreciated vehicles with total appraised value of P280,000.

11. RETAINED EARNINGS

Per Board Resolution No. 61, dated June 16, 2006, the Board approved that the amount of P16.250 million of the Retained Earnings be declared as stock dividend in favor of the Development Bank of the Philippines (DBP), to be appropriated and applied to the full payment of the DBP subscription to 162,500 shares upon release of the increase in capitalization of DBP Data Center, Inc.

For the year 2008, an additional capital stock amounting to P1.250 million was subscribed in favor of Development Bank of the Philippines, increasing the Subscribed Capital Stock from P3.750 million to P5.000 million. The remaining stock dividend will be used upon release of the certificate of increase in DCI capitalization. On April 3, 2009, DCI's application for increase in capitalization was approved and the corresponding certificate was released accordingly.

12. SALARIES, ALLOWANCES AND BENEFITS

This account includes the following:

	2008	2007
Salaries and wages	32,100,110	36,618,682
Vacation/sick leave	3,628,312	2,033,221
13th month pay	2,847,841	3,022,518
Grocery allowance	2,809,062	3,240,864
Overtime pay	2,602,082	2,045,606
Employee benefit	2,344,879	2,953,853
Pension expense	1,828,589	1,296,894
Employer's SSS, Philhealth and EC contributions	1,583,305	1,764,733
Employer's rice contribution	1,452,726	1,212,000
Hospitalization benefits and group insurance	1,282,232	903,854
Gift certificate	538,000	668,500
Anniversary bonus	276,000	303,000
Uniform allowance	240,837	256,864
Local training	130,441	55,740
Employer's Pag-ibig contribution	122,600	135,900
Optical and dental benefits	85,562	139,718
Loyalty cash	69,250	149,100
Transportation/meal allowance	38,552	83,745
Other personnel benefits	131,627	61,769
	54,112,007	56,946,561

13. EARNINGS/LOSS PER SHARE

The basic earnings/loss per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. The Corporation's earnings/loss per share was computed as follows:

	2008	2007
Net earnings/loss	1,369,838	(951,826)
Outstanding common shares	50,000	37,500
	27.40	(25.38)

14. RELATED PARTY TRANSACTIONS

Parties are considered related when one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

On April 1, 2005, the Corporation entered into a Service Level Agreement (SLA) with Development Bank of the Philippines (DBP) at a contract price of P52,701,394 per annum. Under this Agreement, the Corporation agreed to provide DBP with Application Management Services Program Management, Application Development, Application Enhancement and Application Maintenance.

Further, the Corporation has significant transactions in the normal course of business with related parties. The Corporation maintains current account deposits and short-term placements at DBP Head Office, Makati City.

Below is the tabulation of transactions with related party, DBP:

Particulars	Amount
Receivables – Professional Service Agreement	10,933,117
Cash in Bank – Current Account	4,195,722
Short-term investment	3,302,657

15. RECLASSIFICATION

The following accounts in the 2007 financial statements were reclassified to conform with the 2008 presentation:

Account	From	To	Amount 2008	Amount 2007
Computer software	Property and equipment	Other assets (intangibles)	982,043	1,616,200
Local training	Professional fees	Salaries and wages	130,441	55,740
Consulting fees	Professional fees	Service fees	143,148	581,948
Taxes and licenses	Miscellaneous expense	Taxes and licenses	804,991	929,997
Bad debts	Miscellaneous expense	Provision for probable losses	480,960	40,000

16. EVENTS AFTER THE BALANCE SHEET DATE

a. In February 2009, a new agreement on the final acceptance of Phase A and B projects was entered into between DCI and Civil Service Commission (CSC) per letter of CSC dated January 19, 2009.

b. The Certificate of Increase in Capital Stock of DCI from P5.000 million to P50.000 million, divided into 500,000 shares with par value of P100 each, approved by the Board of Directors on March 11, 2008 and by the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock at a meeting held on June 20, 2008, certified to by the Chairman and the Secretary of the stockholders' meeting and majority of the Board of Directors, was approved by the Securities and Exchange Commission (SEC) on April 3, 2009.

PART II – A. OBSERVATIONS AND RECOMMENDATIONS

B. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

A. OBSERVATIONS AND RECOMMENDATIONS

1. The recorded cost of Property and Equipment as of December 31, 2008 amounting to P28.775 million was not reconciled with the physical inventory list due to lack of information on individual cost and totals for each category, contrary to DCI Policy Statement No. GSD.E.3.4, thereby casting doubt on the reliability of the account balances.

1.1 Section GSD.E.3.4 of the DCI Administration and Finance Department Manual of Operations states:

> *3.4.1 Physical Inventory of EFF/TE and SE items shall be conducted by an Inventory Team composed of representatives from Finance and General Services Division at least once a year and acknowledged by Accountable employees.*
>
> *3.4.2 After verification, validation and reconciliation processes of all inventoried items, memos shall be sent to accountable employees/officers for unlocated EFF and SE items, for their appropriate action.*
>
> *3.4.3 The value of the EFF and SE in the master-list shall at all times tally with their GL balances.*

1.2 Management conducted a physical inventory of the Property and Equipment costing P28.775 million as of December 31, 2008. However, the inventory records submitted has no unit cost for each item and the total balance for each category where the recorded amounts will be compared. It appears that only the physical existence of properties were validated but no reconciliation with the general ledger (GL) balances was undertaken by Management, contrary to DCI Policy Statement No. GSD.E.3.4, thus casting doubt on the correctness, validity and reliability of the related property records and account balances.

1.3 We recommended and Management agreed to configure the inventory system to show the individual cost and the totals for each category and reconcile the same with the GL balances.

2. Six accountable officers were not bonded, contrary to the Bureau of Treasury and COA regulations governing the fidelity bonding of government officials and employees.

2.1 Section 2.1 of Treasury Order No. 01-95 states:

> *Except as otherwise herein provided, all officials and employees of National Government Agencies (NGAs), Government-Owned and Controlled Corporations (GOCCs), Local Government Units (LGUs), self Governing Boards and Commissions and all others concerned shall, whenever the duties performed permit or require the custody of funds/property/accountable forms be covered by a fidelity bond.*

2.2 Section 6.2 of the Treasury Order No. 01-95, as amended by Treasury Order No. 01-99 provides:

> *An official/employee who has both money and property accountability, shall be bonded only once to cover both accountabilities, but the amount of the bond shall be in accordance with the REVISED SCHEDULE Annex A, provided however, that the amount of bond shall not exceed Five Million (P5,000,000.00) Pesos.*

2.3 COA Circular No. 2006-005 dated July 13, 2006 amending Section 7.1 of COA Circular No. 97-002 dated February 10, 1997 on the granting, utilization and liquidation of Cash Advances states:

> *Each accountable officer whose total cash accountability is not less than P5,000 shall be bonded. The amount of bond shall depend on the total accountability of the officer as fixed by the Head of Agency. An official or employee who has both money and property accountability shall be bonded only once to cover both accountabilities, but the amount of bond shall be in accordance with the Schedule issued by the Bureau of Treasury.*

2.4 Review of the disbursements on sampling basis during the year revealed that six accountable officers who were granted cash advances more than the threshold of P5,000 were not bonded. Said cash advances were for payment of car insurance and registration, travel insurance and purchase of supplies. Each accountable officer has total cash advances ranging from P12,400 to P96,523. Likewise, the custodians of properties and accountable forms were not bonded, contrary to the requirements of Treasury Order No. 01-95 of the Bureau of Treasury and COA Circular No. 2006-005.

2.5 We recommended and Management agreed and committed to secure additional bond for other accountable officers.

3. The corresponding depreciation expense of the vehicles donated by DBP to DCI in April 2007 was not computed and recorded due to the absence of the remaining life of the assets in the appraisal report, contrary to PAS 16.

3.1 Paragraph 57 of PAS 16 provides as follows:

> *The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. <u>The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets</u>.* (underscoring supplied)

3.2 Based on the appraisal report of the DBP appraiser in January 2007, the appraised value of the two vehicles donated by DBP to DCI was P280,000. However, the estimated useful life of the assets was not indicated therein. Thus, the computation of the depreciation corresponding to the remaining useful life of the vehicles could not be determined.

3.3 We recommended that Management require the estimation of the remaining useful life of the vehicles and record the corresponding depreciation in its books to conform with PAS 16.

3.4 Management committed to comply with the recommendation. They will request DBP for the computation of the estimated useful life of the vehicles.

B. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the two audit recommendations embodied in the prior year's Annual Audit Report, one was fully implemented and the other one was partially implemented.

Observations and Recommendations	**Actions Taken**
1. Computerized information/accounting system not maintained.	Partially implemented.
All the 2008 transactions were still recorded manually in various books of original entry and posted manually in the general ledger.	
Thus, the commission of errors in the process was not yet eliminated/ mitigated.	
Take advantage of its expertise in information technology and its excellent and customer driven-IT professionals for its own operations by developing, acquiring, implementing and maintaining a computerized information system.	DCI purchased an Accounting System in December 2007 and is in the process of implementation/parallel run. It was existing when COA's review commenced in January 2008.
As a rejoinder, COA believes that given the fact that DCI has an in-house capability of developing computerized system, Management should have developed its computerized accounting system instead of procuring one.	Various finance processes are done using the system, such as Disbursements, Billing and Collection, and Purchase Order preparation. General and subsidiary ledgers are still being reviewed for accuracy.
We further recommend to fast track the full implementation of the Accounting System.	