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SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	0000107887
Company Name	DBP DATA CENTER INC.
Industry Classification	Research & Experimental Dev. In Information Technology
Company Type	Stock Corporation

Document Information

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COVER SHEET

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S.E.C. Registration Number

DBP DATA CENTER, INC.

(Company's Full Name)

SENATOR GIL PUYAT AVENUE COR.
MAKATI AVENUE, MAKATI CITY

(Business Address: No. Street City / Town / Province)

GINA A. GONZALES	8480277
Contact Person	Company Telephone Number

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Month Day Fiscal Year	FORM TYPE	Month Day Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

7		
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

MEMORANDUM

T O : ALL CHIEFS AND STAFF

F R O M : OLGA A. PACANA, Director

SUBJECT : Financial Statements of government owned or controlled corporations

D A T E : April 11, 1991

X---X

In the computation of penalties on the late submission of financial statements of government owned or controlled corporation, the 120 day period within which to file audited financial statements after the fiscal year end does not apply. Instead, a different deadline applies which is 30 days after date of transmittal as indicated in a letter signed by a Commission on Audit Commissioner, accompanying the audited financial statements. The date of said letter, irrespective of the date of receipt of the company, is the reckoning date from which the 30 day period is counted. The same scale of fines shall be applied.

OLGA A. PACANA
Director

DCI

STATEMENT OF MANAGEMENT RESPONSIBILITY
FOR
FINANCIAL STATEMENTS

The Management of DBP Data Center, Inc., is responsible for all information and representations contained in the financial statements for the year(s) ended December 31, 2012 and 2011. The financial statements have been prepared in conformity with the generally accepted accounting principles and reflect the amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Management Committee reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

The Commission on Audit, the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with generally accepted auditing standards, and has expressed its opinion on the fairness of presentation upon completion of such examination.

GIL A. BUENAVENTURA
Chairman of the Board of Directors

ROBERTO F. VIRAY
Treasurer

Marietta M. Fondevilla
MARIETTA M. FONDEVILLA
Officer-In-Charge

Signed this 12 day of July 2013.

Republic of the Philippines
COMMISSION ON AUDIT
Corporate Government Sector
Cluster 1 – Banking and Credit
Office of the Cluster Director

June 17, 2013

The Board of Directors
DBP Data Center, Inc.
Senator Gil J. Puyat Avenue
corner Makati Avenue
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 audit of the accounts and operations of the **DBP Data Center, Inc. (DCI)**, for the year ended December 31, 2012.

Our attached report consists of two parts: Part I – Audited Financial Statements and Part II – Observations and Recommendations and Status of Implementation of Prior Year's Audit Recommendations.

We expressed an unqualified opinion on the financial statements of DCI, as shown in the Independent Auditor's Report. Notwithstanding this opinion, may we invite your attention to the observations and recommendations as well as the prior year's unimplemented audit recommendations embodied in Part II of the report.

In our transmittal letter, of even date, for the Officer-in-Charge of DCI, we requested that the recommendations contained in the report be implemented and that this Commission be informed of the actions taken thereon within sixty (60) days from receipt hereof.

We acknowledge the support and cooperation extended to us by the officials and staff of DCI, thus facilitating the completion of this report.

Very truly yours,

LITA E. DIEZ
Director IV
Officer-in-Charge

JUL 09

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, 2012

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 DCI 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, 2012, DCI had a total manpower of 97 including 35 contractual personnel.

The Corporation's approved operating budget for 2012 is P55,821,987. Utilization for the year amounted to P58,034,859. This was 3.96 per cent more than the approved operating budget, primarily due to increase in manpower requirements of DBP-ITD. The said increase had a corresponding increase in income of P3,273,910, from P59,466,828 to P62,740,738, or 5.5 per cent of the approved income budget during the year. The breakdown of budget and utilization are as follows:

	Budget	Utilization
Personal Services	50,395,211	54,656,675
Maintenance and Other Operating Expenses	5,426,776	3,378,184
Total	55,821,987	58,034,859

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

	2012	2011	Increase (Decrease)
Assets	58,398,703	50,789,731	7,608,972
Liabilities	20,246,990	11,589,538	8,657,452
Equity	38,151,713	39,200,193	(1,048,480)

II. Comparative Results of Operations

	2012	2011	Increase Decrease)
Income	63,398,143	58,071,617	5,326,526
Expenses	59,446,623	52,710,252	6,736,371
Profit	3,951,520	5,361,365	(1,409,845)

SCOPE OF AUDIT

The audit covered the examination, on a test basis, of the accounts and financial transactions of DCI for the period January 1 to December 31, 2012 in accordance with the International Standards on Auditing 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 2012.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. Non-adherence to guidelines on accrual, lapses in recording, and inadequate monitoring of financial activities resulted to unreconciled and misstated accounts balances amounting to P1.851 million.

1.1. Adhere strictly to the policy on Accrual of Accounts Receivables and Accounts Payable as set forth in the DCI's Accounting Manual for proper recognition/accrual of income and expenses.

1.2. Comply with the provisions of paragraphs 31 and 38 on the Framework for the Preparation and Presentation of Financial Statements.

1.3. Prepare the necessary adjusting entries to correct the balances of the affected accounts.

1.4. Update the manually-prepared books and ledgers to reconcile with the computer-generated financial statement balances.

1.5. Consider full automation of the Corporation's accounting system, as the errors/lapses observed were caused by the limitations of the manual accounting system. DCI, a Corporation formed to implement the computerization program of DBP, should operate and maintain for itself a fully automated accounting system.

2. DCI has no Gender and Development (GAD) Plans, Programs and Budget, which is not in compliance with Republic Act (RA) No. 9710 or the "Magna Carta for Women" and the Philippine Plan for Gender-Responsive Development (PPGD) 1995-2025.

2.1 Comply with R.A. No. 9710 and Philippine Plan for Gender-Responsive Development (PPGD) 1995-2025.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of four audit recommendations embodied in CY 2011 AAR, two were not implemented and two were fully implemented. The unimplemented audit recommendations are presented in Part II-B of this Report.

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PART I

AUDITED FINANCIAL STATEMENTS

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Corporate Government Sector
Cluster 1 – Banking and Credit

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.** (a wholly-owned subsidiary of Development Bank of the Philippines) which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, 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.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 **DBP Data Center, Inc.** as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

ESTRELLITA C. AMPONIN
Supervising Auditor

March 15, 2013

DBP DATA CENTER, INC.

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

STATEMENT OF FINANCIAL POSITION

December 31, 2012

(In Philippine Peso)

	Note	2012	2011
ASSETS			
Current assets			
Cash and cash equivalents	4,16	21,186,540	20,301,370
Receivables	5,16	29,802,482	22,725,834
Prepaid expenses	6	238,989	157,075
		51,228,011	43,184,279
Non-current assets			
Property and equipment	7	1,490,976	1,884,373
Financial asset held to maturity	8,16	5,000,000	5,000,000
Other assets	9	679,716	721,079
		7,170,692	7,605,452
TOTAL ASSETS		58,398,703	50,789,731
LIABILITIES AND EQUITY			
Current liabilities			
Payables	10	3,152,843	2,627,772
Dividend payable		5,000,000	-
Customers' deposit		161,075	161,075
Accrued expenses		3,297,069	2,531,643
		11,610,987	5,320,490
Non-current liabilities			
Vacation/Sick leaves payable		3,188,016	2,630,510
Past service pension cost payable		5,447,987	3,638,539
		8,636,003	6,269,049
		20,246,990	11,589,538
Equity			
Capital Stock			
Authorized - 500,000 shares, P100 par value			
Issued and outstanding - 202,800 shares	11	20,280,000	20,280,000
Retained Earnings	12	17,871,713	18,920,193
		38,151,713	39,200,193
TOTAL LIABILITIES & EQUITY		58,398,703	50,789,731

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 COMPREHENSIVE INCOME

For the year ended December 31, 2012

(In Philippine Peso)

	Note	2012	2011
REVENUE			
Outsourcing services		60,430,451	55,128,176
Others	13	2,310,287	2,256,261
		62,740,738	57,384,437
EXPENSES			
Salaries, allowances and benefits	14	41,691,877	36,021,269
Service fees		12,964,797	9,986,272
Rent and utilities		1,161,910	1,454,375
Professional fees		840,092	954,329
Depreciation and amortization	7, 9	522,259	664,272
Taxes and licenses		453,178	432,652
Transportation and travel		141,245	102,779
Representation		65,454	36,572
Office supplies		54,682	82,197
Repairs and maintenance		15,647	48,397
Retrenchment/redundancy pay		-	800,016
Miscellaneous		123,718	123,900
		58,034,859	50,707,030
PROFIT BEFORE INTEREST AND TAXES		4,705,879	6,677,407
Add: Interest income		657,405	687,180
PROFIT BEFORE TAXES		5,363,284	7,364,587
Income tax expense		1,411,764	2,003,222
PROFIT/TOTAL COMPREHENSIVE INCOME		3,951,520	5,361,365

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 EQUITY
For the year ended December 31, 2012
(In Philippine Peso)

	Note	Common Stock		Retained	
		No. of shares	Amount	Earnings	Total
Balance January 1, 2011		202,800	20,280,000	13,558,828	33,838,828
Profit/Total comprehensive income for 2011				5,361,365	5,361,365
Balance December 31, 2011		202,800	20,280,000	18,920,193	39,200,193
Profit/Total comprehensive income for 2012				3,951,520	3,951,520
Cash dividend	12			(5,000,000)	(5,000,000)
Balance, December 31, 2012		202,800	20,280,000	17,871,713	38,151,713

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

DBP DATA CENTER, INC.
(A wholly- owned subsidiary of the Development Bank of the Philippines)
STATEMENT OF CASH FLOWS
For the year ended December 31, 2012
(In Philippine Peso)

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		56,785,266	59,661,425
Other income received		446	16,499
Payments to suppliers		(12,244,138)	(5,581,011)
Payment for operating expenses		(44,234,355)	(50,640,243)
Interest income received		665,451	563,017
Payment for other assets		(87,500)	(238,293)
Net cash generated from operating activities		885,170	3,781,394
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of computer equipment and office machine & equipment		-	(160,714)
Net cash used in investing activities		-	(160,714)
NET INCREASE IN CASH AND CASH EQUIVALENTS		885,170	3,620,680
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		20,301,370	16,680,690
CASH AND CASH EQUIVALENTS, END OF YEAR	4	21,186,540	20,301,370

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 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 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 of Capital Stock of DCI from P5 million to P50 million, was approved by the 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, 2012, DCI had a total manpower of 97 including 35 contractual personnel.

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 Corporation'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 Statements require 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 company.

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.

PAS 10 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 19 Employee Benefit, provides for the accounting of long-term and other employee benefits. It requires the use of projected unit credit method in determining 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 39 Financial Instruments: Recognition and Measurement, establishes the accounting and reporting standards for the recognition and measurement of the Corporation'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 peso.

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.

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 by DCI not related to the nature of the business of the Corporation.

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 per cent residual value. 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	7 years
Other Property & Equipment	5 years

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

Intangibles

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, 2012, the fund has an outstanding value of P 11.219 million.

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 being transferred to DCI Retirement Fund being administered by DBP Trust Department.

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.
As the Corporation's only source of income comes from DBP, DCI considers liquidity risk as part of its risk universe. The organization recognizes the risk in matching its receivables from DBP to its payables, specifically in servicing the salaries of its employees.

With the staff supplementation contract stating a certain period required for DBP IT to pay DCI, the latter closely monitors the payment period stated in the contract.

Below is the asset-liability gap analysis for the year 2012:

	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	21,176,540				21,176,540
Receivables	11,909,240			17,893,242	29,802,482
Prepaid expenses	238,989				238,989
Property plant & equipment				1,490,976	1,490,976
Long-term investment				5,000,000	5,000,000
Other assets		261,583		418,133	679,716
	33,334,769	261,583		24,802,351	58,398,703
Liabilities:					
Current liabilities	11,610,987				11,610,987
Non-current liabilities				8,636,003	8,636,003
	11,610,987			8,636,003	20,246,990
Asset-liability gap	21,723,782	261,583	-	16,166,348	38,151,713

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 supplies for the government in accordance with the 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. 68, 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 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.

During the current year (2012), DCI refocused its efforts in the delivery of DBP Staff Supplementation Agreement and other DBP e-products.

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.

As the Corporation's operations involve providing IT workforce to DBP, DCI considers operational risk as the major risk that it has, particularly the ones related to employee management.

4. CASH AND CASH EQUIVALENTS

Included in this account are the following:

	2012	2011
Cash in banks	10,355,569	9,781,758
Petty cash fund	10,000	10,000
Investments/placements	10,820,971	10,509,612
	21,186,540	**20,301,370**

Considered cash equivalents are investment/placements with DBP Trust Services which are short-term or temporary with maturity of three months or less from date of acquisition sourced from DCI's excess cash.

5. RECEIVABLES

This account consists of the following:

	2012	2011
Trade	11,697,345	4,967,921
Non-trade	19,593,846	19,199,622
	31,244,191	24,167,543
Allowance for probable losses	(1,441,709)	(1,441,709)
	29,802,482	**22,725,834**

Non-trade receivables include overpayment of VAT per Revenue Regulation No. 4-2007 amounting to P13,133,233 per letter dated March 18, 2009, wherein DCI requested the issuance of a Tax Credit Certificate. To date, the review of BIR is still on-going in line with the assessment.

6. PREPAID EXPENSES

This account consists of the following:

	2012	2011
Insurance	165,844	98,258
Unused supplies	53,792	57,750
Taxes and licenses	681	1,067
Others	18,672	-
	238,989	**157,075**

7. PROPERTY AND EQUIPMENT

This account consists of the following:

	Computer Equipment	Office Machine and Equipment	Other Property and Equipment	Furniture and Fixtures	Transportation Equipment	Total
Cost						
January 1, 2012	3,756,785	313,918	1,097,123	2,879,803	743,000	8,790,629
Additions	-	-	-	-	-	-
December 31, 2012	3,756,785	313,918	1,097,123	2,879,803	743,000	8,790,629
Accumulated depreciation						
January 1, 2012	2,961,827	272,240	228,406	2,783,217	660,566	6,906,256
Depreciation	147,680	2,572	228,406	6,605	8,134	393,397
December 31, 2012	3,109,507	274,812	456,812	2,789,822	668,700	7,299,653
Net Book Value						
December 31, 2012	647,278	39,106	640,311	89,981	74,300	1,490,976
Net Book Value						
December 31, 2011	794,958	41,678	868,717	96,586	82,434	1,884,373

8. FINANCIAL ASSET HELD TO MATURITY

This pertains to the DCI'S three-year financial instrument (FXTN 07-43) issued by Bureau of Treasury amounting to P5 million at 5.225% maturing on March 3, 2013 which was purchased through the DBP Treasury Department.

9. OTHER ASSETS

The details of this account are as follows:

	2012	2011
Intangibles (computer software)	3,819,443	3,731,943
Rental deposit	207,827	207,827
Miscellaneous asset	37,220	37,220
Refundable deposit	16,536	16,536
	4,081,026	3,993,526
Less: Accumulated amortization (intangibles)	3,401,310	3,272,447
	679,716	**721,079**

Intangibles are software costs accounted for as follows:

	2012	2011
Balance at beginning of year	459,496	459,430
Additions	87,500	226,494
Amortization	(128,862)	(226,428)
Balance at end of year	**418,134**	**459,496**

10. 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:

	2012	2011
Suppliers/creditors	379,296	579,412
Bureau of Internal Revenue	1,837,521	1,021,664
Employee benefit fund	382,186	382,186
Government remittances	188,450	150,653
Others	365,390	493,857
	3,152,843	**2,627,772**

11. CAPITAL STOCK

Capital stock represents the nominal value of common shares issued and outstanding. The Authorized Capital Stock amounts to P50 million representing 500,000 shares at P100 par value. Capital Stock issued and outstanding as of December 31, 2012 amounts to P20.280 million or 202,800 shares.

14. SALARIES, ALLOWANCES AND BENEFITS EXPENSES

	2012	2011
Salaries and wages	23,705,522	22,998,234
Gift certificate	2,427,784	362,000
Employer's rice contribution	2,087,100	1,253,400
13th month pay	1,984,968	1,942,825
Vacation/sick leave	1,964,206	1,904,655
Grocery allowance	1,870,000	1,009,702
Pension expense	1,809,448	1,926,657
Overtime pay	1,388,027	1,874,496
Employer's SSS, Philhealth and EC contributions	1,053,771	1,006,601
Hospitalization benefits and group insurance	942,306	425,048
Performance-Based Incentive	800,000	-
Other personnel benefits	459,814	344,885
Productivity Enhancement Incentive	310,000	-
Anniversary bonus	310,000	168,000
Clothing allowance	182,700	281,387
Local training	136,565	58,420
Loyalty cash	87,000	294,220
Employer's Pag-ibig contribution	75,200	75,500
Optical and dental benefits	64,317	62,531
Transportation/meal allowance	33,149	32,708
	41,691,877	**36,021,269**

15. 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:

	2012	2011
Net earnings	3,951,520	5,361,365
Outstanding common shares	202,800	202,800
Earnings per share	**19.48**	**26.44**

16. 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 May 1, 2009, DBP and DCI entered into a Staff Supplementation Agreement which is part of the Professional Service Agreement averaging an earnings of P54 million.

Further, the Corporation has significant transactions in the normal course of business with related parties. DCI maintains current account deposits, short-term placements and long-term investment (FXTN 07-43) at DBP Head Office, Makati City.

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

Particulars	2012	2011
Receivables – Professional Service Agreement	11,650,345	4,967,921
Cash in Bank – Current Account	9,165,842	7,203,414
Short-term investment	10,820,971	10,509,612
Long-term investment	5,000,000	5,000,000

17. COMPLIANCE WITH TAX LAWS

In compliance with the requirements set forth by Revenue Regulation No. 15-2010, hereunder are the information on taxes and license fees paid or accrued during the taxable year 2012.

A. DBP Data Center Inc. is a VAT-registered Corporation with VAT output tax declaration of P7.235 million based on the amount reflected in the Sales Account of P60.293 million.

B. The amount of VAT input taxes claimed are broken down as follows:

Particulars	Amount
Current year's purchases:	
Goods other than for resale or manufacture	71,676
Services lodged under other accounts	1,482,382
	1,554,058

C. Other taxes & licenses	
Local:	
Mayor's/Business Permit	436,842
Community Tax Certificate	10,500
	447,342
National:	
BIR Annual Registration	500

PART II

A. OBSERVATIONS AND RECOMMENDATIONS

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

A. OBSERVATIONS AND RECOMMENDATIONS

1. Non-adherence to guidelines on accrual, lapses in recording, and inadequate monitoring of financial activities resulted to various unreconciled and misstated accounts balances amounting to P1.851 million.

1.1. Section VI – C Accrual Policy on Accounts Receivable and Accounts Payable provides for the following guidelines:

> *2.1 Income and expense Recognition/Accrual*
>
> *2.1.1. A sale occurs during the month of recognition and Accounts Receivable is set-up when the company realizes income from its services as follows:*
>
> *2.1.1.1 at the time DCI Billing Statement is received by client during the month of incurrence,*
>
> *2.1.1.2 at the time the Certificate of Completion and Acceptance is signed by the client beyond the month of actual incurrence; provided, the Certificate is officially received by DCI on or before the 5th calendar day of the following month, or*
>
> *2.1.1.3 during cut-off period, i.e. end of the month, DCI may recognize income from certain projects when all the events that establish the right to receive the income have happened, and when the amount of income to be received is known with reasonable accuracy on the basis of proper documents at hand (e.g. time sheet, number of products delivered, etc.)*
>
> *2.1.2 Expenses are booked and Accounts Payable is set-up as follows:*
>
> *2.1.2.1 once billings from third parties are received by DCI, or*
>
> *2.1.2.2 during cut-off period, i.e., end of the month, DCI may recognize expenses for certain projects when all the events that establish the right to disburse the expense have happened, and when the amount of expense to be disbursed is known with reasonable accuracy on the basis of proper documents at hand(e.g. time sheet, number of products received, etc.)*
>
> *2.2 Adjustments to previously recognized income*
>
> *2.2.1 If the estimated amount due the Company, with reasonable accuracy have already recorded it as income, and the amount that is eventually received differs from the estimate, an adjustment to income shall be made in the year when payment is actually received.*

2.3 Adjustment to previously booked expense

2.3.1 A booked expense may be adjusted when previously recorded amount differs from the amount at the time actual payment is made by the Company. The adjustment shall be made in the year when payment is actually disbursed.

1.2. Further, Paragraphs 31 and 38 of the Framework for the Preparation and Presentation of Financial Statements provide:

31. To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

38. To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

1.3. Review of the general ledgers disclosed that the Corporation did not strictly adhere to the guidelines on accrual as prescribed in the DCI's Accounting Manual. Moreover, lapses in accounting for financial transactions including errors in the computations and recording, as well as inadequate monitoring of financial transactions resulted to unreconciled and misstated balances of accounts aggregating to P1,851,144, arrived at as follows:

	Amount
Service Income	
Discrepancy in the reversal of accrual [a.1]	61,352
Amount in GL without corresponding journal voucher [a.2]	508,681
Erroneous adjustment on entry already cancelled [a.3]	277,673
Overstatement of interest/accrued income on Trust placement [b]	8,045
Security and janitorial expenses misclassified as service fees [c]	186,351
GL and FS balance discrepancy of Rent and utilities account [d]	12,472
Discrepancy in the GL and supporting documents of various payables [e]	796,570
	1,851,144

a. The audited service income for the year amounted to P60,338,091 while its balance per Statement of Comprehensive Income is P60,430,451, or a net overstatement of P92,360 which could be due to the following deficiencies, among others, observed in recording transactions, to wit:

a.1 Reversal of accrual amounting to P4,709,920 in March 2012 was debited in the general ledger (GL) as P4,648,568, or a discrepancy of P61,352.

a.2 An amount of P508,681 was credited in April 2012 in the GL without the corresponding Journal Book (JB) entry and Journal Voucher (JV) or Billing Statement (BS) to document that such transaction occurred. The amount, therefore, is an invalid entry and should not form part of the Service income account.

a.3 A debit entry of P277,673 was made in September per JV No. 2012-09-09 as an adjustment to BS No. 3294. Verification revealed that no adjustment was necessary since BS No. 3294 was already cancelled as shown in the Sales Register. The said amount, therefore, was an invalid adjusting entry, hence, should not be deducted from the Service Income Account.

b. Audited accrual of interest on the Corporation's Trust placement for the month of December amounted to P10,491. Per JV No. 2012-12-44 dated December 31, 2012, the amount accrued was P18,536 or an overstatement of both interest income and accrued interest receivable by P8,045. Verification disclosed that the number of days used in the computation of accrued interest income was the remaining number of days from January 2013 up to the maturity of the placement instead of from last interest payment date up to December 31, 2012.

c. Security and janitorial services amounting to P186,351 was misclassified and booked as Service fees. JV No. 2012-12-37 dated December 31, 2012 was prepared to take up the adjustment. However, no corresponding postings had been made to the subsidiary and general ledgers, consequently, presenting erroneous balances of said accounts in the financial statements.

d. Telephone, telegram and postage (under Rent and Utilities) per GL amounted to P1,133,581, while balance per FS amounted to P1,121,109 or a discrepancy of P12,472.

e. Comparison of all amounts in the payment forms/receipts of BIR, SSS (contributions and loans) and HDMF (contributions and loans) against the general ledger balance of the said accounts showed a total discrepancy of P796,570, as follows:

	Balance		
	Per Books	Per Audit	Over/(Under)
Withholding tax payable	191,035	958,979	(767,944)
SSS premium payable	69,970	98,580	(28,610)
SSS loan payable	19,042	18,442	600
HDMF loan payable	25,712	26,328	(616)
	305,759	**1,102,329**	**(796,570)**

e.1 Payment amounting to P556,040 for the tax period April 2012 was recorded as withholding tax payable account on September 30, 2012 only per JV No. 25.

e.2 JV Nos. 10, 15 and 19 pertaining to SSS premium payable amounting to P96,724 were entered in the books as P96,274.

e.3 No entry was posted for the 10 per cent withholding tax deducted from salary per CV Nos. 43182 and 41383 dated January 10, 2012.

1.4. **We recommend that Management:**

a. Adhere strictly to the policy on Accrual of Accounts Receivable and Accounts Payable as set forth in the DCI's Accounting Manual for proper recognition/accrual of income and expenses;

b. Observe the provisions of paragraphs 31 and 38 of the Framework for the Preparation and Presentation of Financial Statements;

c. Make the necessary adjusting entries for all accounts affected;

d. Update the manually-prepared books and ledger to reconcile with the computer-generated financial statement balances; and

e. Consider full automation of the Corporation's accounting system, as the errors/lapses observed were caused by the limitations of the manual accounting system. DCI, a Corporation formed to implement the computerization program of DBP, should operate and maintain for itself a fully automated accounting system.

1.5. Management commented that it had already adjusted/corrected the deficiencies/errors subject of the observations and committed to make regular reconciliation of the manually prepared books and ledgers with the computer-generated financial statements in the meantime that its computer system has not yet been approved by the Bureau of Internal Revenue. Management added that the recommendation for full automation will be strictly complied with.

1.6. After the exit conference, Management provided the adjustments which have been subsequently validated to have been taken up, except for the P12,472 discrepancy which Management claimed to be at P3,000 only. This claim could not, however, be considered in audit.

1.7. As the observed deficiencies and discrepancies are recurring, we also recommend to conduct regular monitoring and reconciliation of manually prepared books with the computer system DCI is currently using to avoid repetition of unreconciled balances and misstatements.

2. DCI has no Gender and Development (GAD) Plans, Programs and Budget, which is not in compliance with Republic Act (RA) No. 9710 or the "Magna Carta for Women" and the Philippine Plan for Gender-Responsive Development (PPGD) 1995-2025.

2.1 As defined in the Primer for Gender Mainstreaming and Institutionalization in the Budgeting Process, Gender and Development (GAD) is an approach to or a development that focuses on how social, economic, political and cultural forces determine how differently women and men participate in, benefit from, and control resources and activities for development. It is a framework of analysis that seeks to understand the role of gender in the attainment of development goals.

2.2 The Primer also describes GAD policy as the concrete translation of the government's commitment to the Constitutional provision on gender equality. The 1987 Philippine Constitution affirms the fundamental equality of women and men before the law. To pursue this commitment, government adopted the GAD framework as one of its policies to define the direction of development that it wants to undertake, refocus its strategies, priorities and resource allocation, and enhance its plans and programs.

2.3 National laws and policies have been issued to strengthen the implementation of the GAD policy. These include:

a. Women in Development and Nation Building Act (RA No. 7192);

b. Executive Order No. 273 adopting the Philippine Plan for Gender-Responsive Development, 1995-2025;

c. Medium-Term Philippine Development Plan;

d. GAD Budget Provision in the General Appropriations Act; and

e. Joint Memorandum Circular No. 99-04 on GAD Planning and Budgeting issued by the Department of Budget and Management, the National Economic and Development Authority, and the National Commission on the Role of Filipino Women (NCRFW).

2.4 In addition, Section 37 A.1 of the Implementing Rules and Regulations (IRR) of RA 9710 specifically provides for the development and budgeting of GAD Plans and Programs, as follows:

> *All agencies, offices, bureaus, SUCs, GOCCs, LGUs, and other government instrumentalities shall formulate their annual GAD Plans, Programs and Budgets within the context of their mandates. Further:*
>
> *a. Following the conduct of a gender audit, gender analysis, and/or review of sex-disaggregated data, each agency or LGU shall develop its GAD Plans, Programs, and Budget in response to the gender gaps or issues faced by their women and men employees, as well as their clients and constituencies. Along with the Act and these Rules and Regulations, the Philippine Plan for Gender-Responsive Development (PPGD), the Beijing Platform for Action (BPfA), and the CEDAW, among others, shall serve as key documents to guide the identification of gender issues and the formulation of GAD Plans, Programs and Budget;*
>
> *b. Where needed, temporary special measures shall be included in their plans. The agency or LGU is encouraged to consult with their employees and clients to ensure the relevance of their GAD Plans and Programs;*

c. At least five percent (5%) of the total agency or LGU budget appropriations shall correspond to activities supporting GAD Plans and Programs. Xxx.

2.5 The DBM and the Philippine Commission for Women (PCW, formerly NCRFW), encourages GOCCs with no government support to seek the endorsement of the PCW for their GAD Plans. Self-sustaining GOCCs shall submit their GAD Plan together with their Corporate Operating Budgets (COBs) to the DBM at the beginning of the year. This shall be the basis of the DBM's review of proposed corporate GAD Budgets.

2.6 Inquiry with Management disclosed that, for CY 2012, no GAD Plans and Programs were formulated and a review of their COB showed that no budget was appropriated for GAD.

2.7 As stated in the Primer, there is a need to establish a GAD Plan to provide the framework for responding to gender issues and encourage stronger accountability in pursuit of gender equality goals.

2.8 **We recommend that Management comply with RA No. 9710 and Philippine Plan for Gender-Responsive Development (PPGD) 1995-2025.**

2.9 Management commented that DCI, as subsidiary of the Development Bank of the Philippines (DBP), did not allocate any budget for GAD. DCI employees joined DBP programs since all costs of DCI are being charged to DBP and holding a separate plan will increase cost to be shouldered by DBP.

2.10 We further recommend for Management to submit documents showing that DCI was included in the GAD plan, activities, and budget allocation of DBP.

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

Out of four audit recommendations embodied in CY 2011 AAR, two were not implemented and two were fully implemented. The audit observation with the corresponding unimplemented recommendations is presented below.

Observations and Recommendations	Actions Taken
DCI's corporate goal of providing information technology services for DBP Head Office and its subsidiaries was not fully achieved due to loss of business opportunities with DBP subsidiaries. 1. Coordinate closely with DBP subsidiaries for their IT services requirements to fully achieve DCI's corporate goal of providing IT services not only to DBP but also to its subsidiaries. 2. Revisit DCI's corporate direction and existence as a DBP subsidiary.	DCI considered the possibility of rendering services to DBP subsidiaries but Government Procurement Policy Board (GPPB) Resolution No. 3 s. 2007 hinders the Corporation from doing so. GPPB allows DCI to transact only with DBP because of "parent-subsidiary" relationship. Thus, since all DBP subsidiaries should comply with R.A. 9184 or the Government Procurement Reform Act, DCI have to participate in the bidding in order to do business with them. Consequently, DCI Board mandated Management to focus only on DBP systems and other product-related services.