



**STATEMENT OF MANAGEMENT RESPONSIBILITY
FOR
FINANCIAL STATEMENTS**

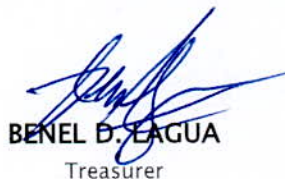
The Management of DBP Data Center, Inc. is responsible for all information and representations contained in the financial statements for the year ended December 31, 2017 and 2016. The financial statements have been prepared in conformity with the generally accepted accounting principles and reflect the 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 Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

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


LUIS C. BONGUYAN
Chairman of the Board of Directors


BENEL D. LAGUA
Treasurer

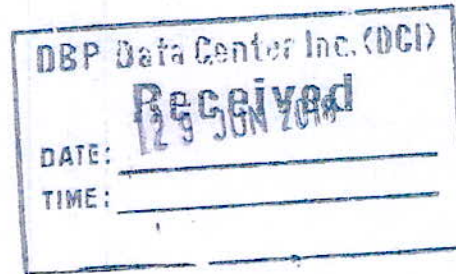

EMMANUEL F. GALICIA, JR.
President and CEO



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
CORPORATE GOVERNMENT SECTOR
Cluster 1 – Banking and Credit

June 28, 2018

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



Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and pertinent Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of audit of the accounts and transactions of the **DBP Data Center, Inc. (DCI)** for the years ended December 31, 2017 and 2016.

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

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of DCI for the years ended December 31, 2017 and 2016 in view of the non-provision of allowance for impairment loss of P13.133 million on the non-trade receivables with no probability of collection, as the right to claim tax credit certificates from the Bureau of Internal Revenue (BIR) has already prescribed. Moreover, the pension benefits payable amounting to P19.017 million as at reporting date, was not measured in accordance with the provisions of Philippine Accounting Standard (PAS) 19, Employee Benefits. Without an actuarial study, it is not practicable to quantify the financial effects as at reporting date, however, possible misstatements could affect the financial statements as at December 31, 2017 and 2016.

For the above audit observations which caused the issuance of a qualified opinion, we recommended that Management: (1) provide an allowance for impairment loss on the P13.133 million Accounts Receivable – Non-Trade and undertake the required procedures on write off of dormant receivables without probability of collection under COA Circular No. 2016-005 dated December 19, 2016; and, (2) account for employee benefits in accordance with the provisions of PAS 19, using actuarial assumptions.

In a letter of even date, we requested the President of DCI that the foregoing recommendations and other recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form and returning the same to us within 60 days from the date of receipt.

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

Very truly yours,

COMMISSION ON AUDIT

By:


ADELA L. DONDONILLA
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government – Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The National Library
The UP Law Center
The COA Commission Central Library

For the years ended December 31, 2017 and 2016

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

DBP DATA CENTER, INC.

on the

ANNUAL AUDIT REPORT

Commonwealth Avenue, Quezon City

COMMISSION ON AUDIT

Republic of the Philippines



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.

DCI provides services to DBP and its subsidiaries under the direction set by the Board in 2007. In 2013, when the Government Procurement Policy Board (GPPB) officially advised DCI that it can enter into an Agency-to Agency contracts with government corporations and agencies following GPPB Resolution No. 12-2013 dated May 10, 2013, the Board noted in October 2013 the Corporation's initiatives to expand the coverage of its business outside the DBP Group.

The Corporation's registered office is located at Senator Gil J. Puyat Avenue corner Makati Avenue, Makati City. DCI Chairman of the Board is Mr. Luis C. Bonguyan and the President is Atty. Emmanuel P. Galicia.

As of December 31, 2017, DCI had a total manpower of 99 including 38 contractual personnel.

AUDIT METHODOLOGY AND SCOPE OF AUDIT

The audit covered the examination, on a test basis, of transactions and accounts for the period January 1 to December 31, 2017 to enable us to express an opinion on the financial statements for the years ended December 31, 2017 and 2016 in accordance with the International Standards of Supreme Audit Institutions (ISSAI). Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS

(In Philippine Peso)

I. Financial Position (with corresponding figures from 2016)

	2017	2016	Increase/ (Decrease)
Assets	170,851,834	151,178,335	19,673,499
Liabilities	124,225,294	99,587,330	24,637,964
Equity	46,626,540	51,591,005	(4,964,465)

II. Results of Operations (with corresponding figures from 2016)

	2017	2016	Increase/ (Decrease)
Income	147,699,694	227,310,564	(79,610,870)
Expenses	146,482,599	214,947,445	(68,464,846)
Net Income	1,726,479	17,643,484	(15,917,007)

III. Budget and Actual Expenditures (with corresponding figures from 2016)

	Budget		Utilization	
	2017	2016	2017	2016
Personnel Services	204,958,578	190,602,306	135,504,483	198,988,135
Maintenance and Other Operating Expenses	17,229,248	7,260,817	11,788,732	10,678,445
Capital Expenditures	3,814,780	7,761,133	796,557	3,965,444
Total	226,002,606	205,624,256	148,089,772	213,632,024

AUDITOR'S OPINION

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements as at December 31, 2017 and 2016.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The Corporation failed to file legal action or proceeding for the recovery of VAT within the two-year prescriptive period under Section 229 of the National Internal Revenue Code, hence, the right to claim has prescribed. No allowance for impairment loss was provided to the account despite the high improbability of its recovery, thus, the balance of Accounts Receivable - Non-Trade- BIR account amounting to P13.133 million was not faithfully represented as at December 31, 2017.

1.1. We recommended that Management:

- a. Provide an allowance for impairment loss on the P13.133 million Accounts Receivable – Non-Trade, representing receivable for the erroneous payment of VAT without probability of recovery; and
- b. Undertake the required procedures on write off of dormant receivables without probability of collection under COA Circular No. 2016-005 dated December 19, 2016.

2. Pension benefits payable were not discounted using actuarial assumptions, contrary to PAS 19 on accounting for employee benefits, while accruals of pension expenses of undetermined amount for resigned/retired employees were not derecognized, thus, the balance of the account amounting to P19.016 million was not faithfully represented as at December 31, 2017.

- 2.1 We recommended that Management:
- a. Review Past Service Pension Cost Payable and reverse accruals made for employees no longer connected with DCI;
 - b. Account for employee benefits in accordance with the provisions of PAS 19, using actuarial assumptions;
 - c. Prepare the necessary adjusting journal entries, as a result of the valuation; and
 - d. Submit documents showing proof of approvals by authorities and the bases and details of the computation of the P4.506 million retirement benefits granted to retirees in 2017 withdrawn from the retirement fund.
3. Non-conduct of physical inventory, and weaknesses in controls to manage properties, including errors in recognition of property and equipment, cast doubt on the integrity of property custodianship and faithful representation of the balances of Property and Equipment with net book value of P4.531 million as at December 31, 2017.

- 3.1 We recommended that Management:
- a. Conduct physical inventory in accordance with COA Circular No. 80-124 and reconcile report with accounting records;
 - b. Label all the properties lacking proper identification and append on the prominent part of the property;
 - c. Require the officers and employees in possession or physical control of property and equipment sign Memorandum Receipts (MRs) and renew MRs every three years;
 - d. Maintain fixed asset ledger cards for each asset item;
 - e. Insure with the GSIS insurable risks of fixed assets;
 - f. Include in the PPE lapsing schedules the number of units per item purchased, to facilitate reconciliation with inventory report; and
 - g. Recognize properly the cost of PPE and calculate depreciation in accordance with PAS 16, and make the necessary adjusting entries.

SUMMARY OF AUDIT DISALLOWANCES

The audit disallowances as at December 31, 2017 amounted to P12.139 million. Notices of Disallowance (NDs) issued during the year amounted to P3.549 million. There were no audit suspensions and charges during the year.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the four audit recommendations embodied in the CY 2016 AAR, three were reiterated in Part II of the Report and one was not implemented.

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PART I

AUDITED FINANCIAL STATEMENTS



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Financial Statements

Qualified Opinion

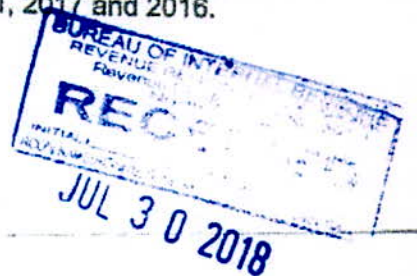
We have audited the financial statements of the DBP Data Center, Inc. (DCI), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the DCI as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Qualified Opinion

The Corporation's receivables include P13.133 million non-trade receivables representing overpayment of VAT per Revenue Regulation No. 4-2007 with no probability of recovery. The issuance of a corresponding Tax Credit Certificate has already been requested, however, no suit or proceeding for recovery of VAT was filed by the Corporation within the two-year prescriptive period from the date of the alleged erroneous payment of VAT as a remedy provided by the National Internal Revenue Code, hence, right to claim has prescribed. Moreover, a Final Decision on Disputed Assessment did not consider the tax credit certificates claimed by the DCI, thus, collectibility is not probable. No corresponding allowance for impairment loss as a result of an assessment on impairment of assets has neither been provided, hence, balance of the Accounts Receivable-Non-Trade from BIR was not faithfully represented as at December 31, 2017 and 2016.

The Retirement Gratuity Plan, for which pension benefits payable amounting to P19.017 million as at reporting date, was not measured in accordance with the provisions of Philippine Accounting Standard (PAS) 19, Employee Benefits. Without an actuarial study, it is not practicable to quantify the financial effects as of reporting date. However, possible misstatements could affect the financial statements as at December 31, 2017 and 2016.



We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the DCI in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

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

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

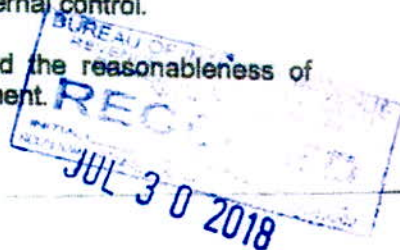
Those charged with governance are responsible for overseeing the DCI's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.




- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

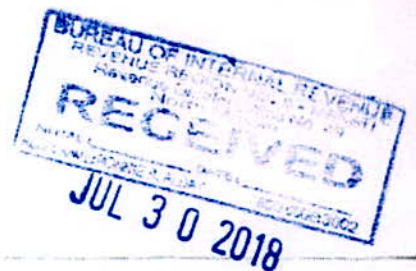
Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 27 to the 2017 financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, except for the withholding taxes on compensation, value-added and other percentage taxes and expanded creditable income taxes totaling P16.147 million which were not remitted within the period prescribed under Section 8 of Revenue Regulation (RR) No. 9-2001, as amended, and Section 2 of RR No. 26-2002, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


MARILYN C. BRIONES
Supervising Auditor

May 31, 2018





Handwritten initials/signature

JUN 27 2018

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **DBP DATA CENTER, INC. (DCI)**, is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended *December 31, 2017 and December 31, 2016*, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders

The *Commission on Audit (COA)*, the independent auditors appointed by the stockholders, has audited the financial statements of **DCI** in accordance with International Standards of Supreme Audit Institutions, and in their report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

LUIS C. BONGUYAN
Chairman of the Board

EMMANUEL P. GALICIA, JR.
President & Chief Executive Officer

GINA A. GONZALES
Finance Division Head

SUBSCRIBED AND SWORN TO before me this JUN 27 2018 in Makati City
affiants exhibited to me their _____ of _____
and _____ I.D Card No _____ of _____

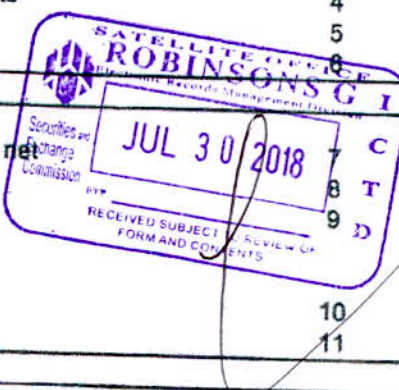
Signed this 7th day of June 2018.

OL. NO 481
PAGE NO 98
BOOK NO. 362
SERIES OF 2018

ATTY VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M 88
BUREAU OF INTERNAL SECURITY
REC'D
JUL 30 2018

DBP DATA CENTER, INC.
(A Wholly-owned Subsidiary of the Development Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	4	30,762,058	29,847,738
Receivables - net	5	116,587,771	102,441,523
Prepayments	6	2,854,105	1,049,832
		150,203,934	133,339,093
Non-current assets			
Property and equipment - net	7	7,443,221	4,307,081
Investments	8	6,988,296	11,361,421
Intangible assets - net	9	672,619	550,294
Input tax		4,254,204	376,852
Deferred tax asset		223,584	223,584
Inventory	10	100,687	122,322
Other assets	11	965,289	897,688
		20,647,900	17,839,242
TOTAL ASSETS		170,851,834	151,178,335
LIABILITIES AND EQUITY			
Current liabilities			
Inter-agency payables	12	15,653,275	8,256,145
Accounts payable	13	55,609,625	59,861,376
Due to officers and employees		682,000	1,620,400
Dividend payable	14	1,500,000	1,500,000
Trust liability	15	26,505,629	0
Other financial liabilities	16	563,943	1,264,564
		100,514,472	72,502,485
Non-current liabilities			
Leave benefits payable	17	4,694,045	4,608,699
Pension benefit payable	18	19,016,777	22,476,146
		23,710,822	27,084,845
		124,225,294	99,587,330
Equity			
Share capital			
Authorized - 500,000 shares, P100 par value			
Issued and outstanding (2017: 232,800 shares; 2016: 202,800 shares)	19	23,280,000	20,280,000
Retained earnings		23,346,540	31,311,005
		46,626,540	51,591,005
TOTAL LIABILITIES & EQUITY		170,851,834	151,178,335



The Notes on pages 9 to 26 form part of this financial statement.



DBP DATA CENTER, INC.
 (A Wholly-owned Subsidiary of the Development Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
 For the years ended December 31, 2017 and 2016
 (In Philippine Peso)

	Note	2017	2016
INCOME			
Service and business income	20	147,625,542	227,157,088
Other business income	21	74,152	153,476
		147,699,694	227,310,564
EXPENSES			
Personnel services	22	51,215,885	48,092,948
Maintenance and other operating expenses (MOOE)	23	94,029,538	161,137,089
Non-cash expenses	24	727,792	437,043
		145,973,215	209,667,080
NET INCOME BEFORE TAXES		1,726,479	17,643,484
Provision for income tax		509,384	5,280,365
NET INCOME/TOTAL COMPREHENSIVE INCOME		1,217,095	12,363,119

The Notes on pages 9 to 26 form part of this financial statement.



JUL 30 2016

DBP DATA CENTER, INC.
(A Wholly-owned Subsidiary of the Development Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	Common Stock (Note 19)		Retained Earnings	Total
		Share	Amount		
Balance January 1, 2016		202,800	20,280,000	21,947,886	42,227,886
Net Income for 2016				12,363,119	12,363,119
Declaration of Cash Dividend				(3,000,000)	(3,000,000)
Balance, December 31, 2016		202,800	20,280,000	31,311,005	51,591,005
Additional paid-up capital		30,000	3,000,000	(3,000,000)	-
Net Income for 2017				1,217,095	1,217,095
Declaration of Cash Dividend (2016)				(6,181,560)	(6,181,560)
Balance, December 31, 2017		232,800	23,280,000	23,346,540	46,626,540

The Notes on pages 9 to 26 form part of this financial statement.

RECEIVED
BUREAU OF INTERNAL SECURITY
JUL 30 2018

DBP DATA CENTER, INC.
 (A wholly-owned subsidiary of the Development Bank of the Philippines)
STATEMENTS OF CASH FLOWS
 For the years ended December 31, 2017 and 2016
 (In Philippine Peso)

	Note:	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		161,290,745	199,302,657
Other income received		45,619	111,209
Cash payments to suppliers		(34,315,697)	(13,882,646)
Cash paid for operating expenses		(116,498,145)	(169,027,744)
Interest income received		28,534	42,267
Cash paid for Other assets		(191,622)	0
Net cash generated from/(used in) operations		10,359,434	16,545,743
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of computer equipment and office machine & equipment		(668,808)	(3,396,283)
Net cash (used in)/provided by investing activities		(668,808)	(3,396,283)
CASH FLOWS FROM FINANCING ACTIVITIES			
Withdrawal of investment in DBP Trust Banking		(2,594,746)	0
Payment of cash dividend		(6,181,560)	(1,500,000)
Net cash used in financing activities		(8,776,306)	(1,500,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		914,320	11,649,460
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		29,847,738	18,198,278
CASH AND CASH EQUIVALENTS, END OF YEAR	4	30,762,058	29,847,738

The Notes on pages 9 to 26 form part of this financial statement.



JUL 30 2018

DBP DATA CENTER, INC.

(A wholly-owned subsidiary of the 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 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.

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

As of December 31, 2017, DCI had a total manpower of 99 including 38 contractual personnel.

The DCI Board noted the DCI's financial statements for the year ended December 31, 2017 on February 1, 2018 and instructed Management for the issuance to COA on March 27, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statement 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 Statement of Cash Flow 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 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.

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 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 than 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 pesos.

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 Company for services rendered by DCI not related to the nature of the business of the Company.

All financial assets are recognized on their trade date.

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	10 years
Office machine & equipment	5 years

Transportation equipment	7 years
Leasehold improvement	3 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.

Past service pension cost payable

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.

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

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 contractual and contractual 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 by 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. 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 Company's portfolio quality. Management carefully manages its exposure to credit risk. Project proponents' payment attitude is being evaluated for future engagements.

Presently, DCI's primary counterparty is DBP. With the Bank's IT including DCI in their annual budget allocation, DCI only considers cash flow concerns and not the risk of non-payment. However, the Company has started offering services and expertise to other government agencies and instrumentalities outside DBP. Additional due diligence is being exerted by the Management to avoid recurrence of previous experiences in government collections.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due under the 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.

As the Company's primary 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, DCI closely monitors the payment period stated in the contract.

Below is the asset-liability gap analysis for the year 2017 and 2016:

2017						
	Up to 3 mos.	Over 3-6 mos.	Over 6 mos-1 yr	Over 1-5 yrs	Over 5 yrs	Total
Assets:						
Petty cash fund	10,000	0	0	-	0	10,000
Cash in bank-local currency	30,752,058	0	0	-	0	30,752,058
Receivables	103,454,539	0	0	13,133,233	0	116,587,772
Prepayments	2,854,105	0	0	-	0	2,854,105
Property plant & equipment	-	0	0	7,443,222	0	7,443,222
Investments	-	-	-	6,988,296	0	6,988,296
Intangible assets	-	-	-	672,619	-	672,619
Other assets	965,289	-	-	-	-	965,289
Input tax	4,254,204	-	-	-	-	4,254,204
Deferred asset	-	0	0	223,584	0	223,584
Inventory	100,687	0	0	-	0	100,687
	142,390,882	0	0	28,480,954	0	170,851,836
Liabilities:						
Inter-agency payables	15,653,276	0	0	0	0	15,653,276
Accounts payable	55,609,625	0	0	0	0	55,609,625
Due to officers and employees	682,000	0	0	0	0	682,000
Dividend payable	1,500,000	0	0	0	0	1,500,000
Trust liability	26,505,629	0	0	0	0	26,505,629
Other financial liabilities	0	0	0	563,943	0	563,943
Leave benefits payable	0	0	0	4,694,045	0	4,694,045
Pension benefit payable	0	0	0	19,016,777	0	19,016,777
	99,950,529	0	0	24,274,765	0	124,225,294
Asset-liability gap	42,440,353	0	0	4,186,189	0	46,626,542

2016						
	Up to 3 mos.	Over 3-6 mos.	Over 6 mos-1 yr	Over 1-5 yrs	Over 5 yrs	Total
Assets:						
Petty cash fund	10,000	0	0	0	0	10,000
Cash in bank-local currency	29,837,738	0	0	0	0	29,837,738
Receivables	89,308,290	0	0	13,133,233	0	102,441,523
Prepayments	1,049,832	0	0	0	0	1,049,832
Property plant & equipment	0	0	0	4,307,081	0	4,307,081
Investments	0	0	0	11,361,421	0	11,361,421
Intangible assets	0	0	0	550,294	0	550,294
Other assets	897,688	0	0	0	0	897,688
Input tax	376,852	0	0	0	0	376,852
Deferred asset	0	0	0	223,584	0	223,584
Inventory	122,322	0	0	0	0	122,322
	121,602,722	0	0	29,575,613	0	151,178,335
Liabilities:						
Inter-agency payables	8,256,144	0	0	0	0	8,256,144
Accounts payable	59,861,375	0	0	0	0	59,861,375
Due to officers and employees	1,620,400	0	0	0	0	1,620,400
Dividend payable	1,500,000	0	0	0	0	1,500,000
Trust liability	0	0	0	0	0	0
Other financial liabilities	700,623	0	0	563,943	0	1,264,566
Leave benefits payable	0	0	0	4,608,699	0	4,608,699
Pension benefit payable	0	0	0	22,476,146	0	22,476,146
	71,938,542	0	0	27,648,788	0	99,587,330
Asset-liability gap	49,664,180	0	0	1,926,825	0	51,591,005

Market risk

Previously, 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 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. 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. With the issuance of GPPB Resolution No. 12-2013, which reverse GPPB resolution no. 03-2007, DCI's position in the Information Technology market industry dealing with government agencies and instrumentalities, is once again brought into an active status.

During the current year (2017), DCI continued to focus primarily on assisting the Bank's initiatives on various bank products by providing the workforce for the development and maintenance of the Bank's systems and applications.

Due to the DBP's intention to engage the services of some DCI contractual employees as direct-hired contractual for a period of three (3) months (extendible at the option of the Bank) commencing 01 January 2018, DCI opt not to renew the contract of service of those personnel that expire prior to 31 December 2017. This action results to a decrease on the Staff Supplementation/Professional Service Agreement from 176 as of 31 December 2016 to 55 as of 31 December 2017.

Further, DCI also intensified the effort to seek opportunities to increase revenues by expanding its customer base to include government agencies and instrumentalities.

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 Company 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 organization'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:

	2017	2016
Cash in bank – local currency (SA/CA)	30,752,058	27,249,756
Investments/placements	0	2,587,982
Petty cash fund	10,000	10,000
	30,762,058	29,847,738

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

5. RECEIVABLES

This account consists of the following:

	2017	2016
Trade	101,691,223	86,660,540
Non-trade	15,641,829	16,526,264
	117,333,052	103,186,804
Allowance for bad debts	(745,281)	(745,281)
	116,587,771	102,441,523

Details of Trade receivables are as follows:

	2017	2016
DBP	88,821,080	71,447,041
Non-DBP	12,870,143	15,213,499
	101,691,223	86,660,540

Non-trade receivables include overpayment of VAT per Revenue Regulation No. 4-2007 amounting to P13.133 million 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. PREPAYMENTS

This account consists of the following:

	2017	2016
Prepaid insurance	1,407,238	563,848
Prepaid rent	483,578	51,986
Taxes & Licenses	0	2,033
Other prepayments	963,289	431,965
	2,854,105	1,049,832

Prepaid insurance is the amount paid for the life insurance coverage and health maintenance insurance coverage of all regular officers and employees.

Prepaid rent is the amount advanced/deposited for leases/rentals of property used in the government operation.

Other Prepayments pertains to unamortized portion of payment for uniform allowance of employees.

7. PLANT, PROPERTY AND EQUIPMENT

This account consists of the following:

2017							
	Computer Equipment	Office Machine and Equipment	Computer Equipment – in transit	Leasehold Improvement	Furniture and Fixtures	Transportation Equipment	Total
Cost							
Beginning Balance	4,496,144	615,125	0	675,410	3,807,496	1,807,946	11,402,121
Acquisitions	650,664	60,547	2,912,566	0	177,979	0	3,801,756
Ending Balance	5,146,808	675,672	2,912,566	675,410	3,985,475	1,807,946	15,203,877
Accumulated depreciation							
Beginning Balance	3,485,919	302,193	0	84,426	2,619,502	603,000	7,095,040
Depreciation/Amort.	140,134	64,570	0	202,623	111,982	146,307	665,616
Disposal	0	0	0	0	0	0	0
Ending Balance	3,626,053	366,763	0	287,049	2,731,484	749,307	7,760,556
Net Book Value	1,520,755	308,909	2,912,566	388,361	1,253,991	1,058,639	7,443,221
2016							
	Computer Equipment	Office Machine and Equipment	Other Property & Equipment	Leasehold Improvement	Furniture and Fixtures	Transportation Equipment	Total
Cost							
Beginning Balance	3,722,859	337,132	1,097,123	0	2,681,803	670,000	8,508,917
Acquisitions	705,411	277,993	0	675,410	1,168,684	1,137,946	3,965,444
Disposal (reclassification)	67,875	0	(1,097,123)	0	(42,994)	0	(1,072,242)
Ending Balance	4,496,145	615,125	0	675,410	3,807,493	1,807,946	11,402,119
Accumulated depreciation							
Beginning Balance	3,339,236	267,401	927,283	0	2,591,623	603,000	7,748,743
Depreciation/Amort.	78,810	14,792	129,472	84,426	35,378	0	342,878
Disposal (reclassification)	67,872	0	(1,056,755)	0	(7,700)	0	(996,583)
Ending Balance	3,485,918	302,193	0	84,426	2,619,501	603,000	7,095,038
Net Book Value	1,010,227	312,932	0	590,984	1,187,992	1,204,946	4,307,081

8. INVESTMENTS

Included in this account is the Investment in Trust for the Retirement Fund. This pertains to the DCI Placement to DBP Trust for the payment of retirement of qualified employees. 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. The DCI Retirement Fund being administered by DBP Trust Department has value of P6.99 million as of December 31, 2017.

9. INTANGIBLE ASSETS

The details of this account are as follows:

	2017	2016
Computer software	4,051,444	3,866,944
Less: Accumulated amortization	3,378,825	3,316,650
	672,619	550,294

Intangibles are software costs accounted for as follows:

	2017	2016
Balance at beginning of year	550,294	462,549
Additions/Adjustment	184,501	181,910
Amortization	(62,176)	(94,165)
Balance at end of year	672,619	550,294

10. INVENTORY

This account pertains to the inventory of Computer and Office Supplies.

11. OTHER ASSETS

The details of this account are as follows:

	2017	2016
Rental deposit	860,332	812,731
Miscellaneous asset	37,220	37,220
Refundable deposit	67,737	47,737
	965,289	897,688

12. INTER-AGENCY PAYABLES

This account pertains to various liabilities to government agencies, such as Bureau of Internal Revenue (withholding taxes, income taxes, value added taxes), SSS (contributions and loans), Philhealth (contributions) and Home Development Mutual Fund (contributions and loans).

The details of this account are as follows:

	2017	2016
Due to BIR	15,398,581	8,027,324
Due to SSS	136,713	112,971
Due to Philhealth	54,004	44,166
Due to Pag-ibig	63,977	71,684
	15,653,275	8,256,145

13. ACCOUNTS PAYABLE

This account includes the short-term liabilities to suppliers and business partners.

The details of this account are as follows:

	2017	2016
Suppliers/business partners	34,623,253	5,411,748
Service providers (SLI/IT Managers)	20,432,111	53,895,366
Others	554,261	554,262
	55,609,625	59,861,376

14. DIVIDENDS PAYABLE

DBP Data Center, Inc. (DCI) declared cash dividend amounting to P3 million per Board Resolution No. 003 dated March 11, 2016 for 2015 Net Income After Tax of P2.68 million. Cash dividend of P3 million was distributed as follows:

- a. P1.5 million for the National Government thru the Bureau of Treasury; and,
- b. P1.5 million for DBP being the parent company.

The amount due to the National Government was paid to the Bureau of Treasury.

15. TRUST LIABILITY

This is a temporary account of DCI's liability on all transactions related to Electronic Payment and Collection System (EPCS) as follows:

	2017	2016
Professional Regulation Commission (PRC)	26,462,524	0
DCI and PMTI share in BIR convenience fee	30,605	0
Deposit of PMTI in the JV account opening	12,500	0
	26,505,629	0

16. OTHER FINANCIAL LIABILITIES

This account includes the Corporation's accrual of liabilities on various with details as follows:

	2017	2016
Utilities	0	700,622
Others	563,943	563,942
	563,943	1,264,564

17. LEAVE BENEFITS PAYABLE

This account pertains to the corresponding liability on monthly accrued vacation/sick leave credits of DCI regular employees. The vacation/sick leave credits are commuted upon separation of the employees from the service.

18. PENSION BENEFIT PAYABLE

The Corporation provides corresponding liability on the retirement of active regular employees based on the guidelines of the Trust Fund. The DCI Retirement Fund being administered by DBP Trust Department and presented in the book as Pension Benefit Payable.

The details of this account are as follows:

	2017	2016
Pension fund payable	6,988,296	11,361,421
Pension service pension payable	12,028,481	11,114,725
	19,016,777	22,476,146

Pension Fund Payable is the account placed to DBP Trust for the payment of retirement of qualified employees. 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. The DCI Retirement Fund being administered by DBP Trust Department has value of P6.99 million as of December 31, 2017.

The Past Service Pension Cost Payable is the amount already set-up to recognize the faithful and satisfactory service of DCI employees. It was provided by DCI through the setting up of the past service liability and the normal cost.

19. SHARE CAPITAL

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 P100.00 par value. Capital Stock paid, issued and outstanding as of December 31, 2017 amounts to P23.28 million or 232,800 shares.

In 2017, stock dividend amounting to P3.0 million was issued in favor of the Development Bank of the Philippines, increasing the subscribed capital stock from P20.280 million to P23.280 million.

20. SERVICE AND BUSINESS INCOME

DCI delivers high-quality services, build an excellent team, and capture competitive market share in the industry which leads to a favorable outcome on revenue recognized for the year, from projects outside DBP staff supplementation, broken down as follows:

	2017	2016
DBP	104,798,771	149,167,414
Non-DBP	42,826,771	77,989,674
	147,625,542	227,157,088

Service and business income from Non-DBP projects are as follows:

	2017	2016
Zamboanga Del Norte Medical Center	11,709,091	5,970,808
Jose B. Lingad Regional Memorial Hospital	14,620,910	3,231,250
Bureau of Treasury	5,516,518	0
Cooperative Development Authority	1,840,000	1,380,000
Bangko Sentral ng Pilipinas	1,650,000	0
Professional Regulation Commission	6,944,598	0
PNP Cebu	190,115	106,576
Bureau of Customs	0	58,035,600
Philippine Export Zone Authority	0	3,144,000
Philippine Port Authority	0	6,121,440
DICT	355,539	0
	42,826,771	77,989,674

21. OTHER BUSINESS INCOME

Other Business Income of DCI pertains to cost of bid documents during its Joint Venture Selection Process, income from processing of individual insurance of employees previously entered into and interest income on deposits.

22. PERSONNEL SERVICES

	2017	2016
Salaries & Wages	34,108,527	27,570,154
Other Compensation	13,589,975	16,070,609
Personnel Benefit Contribution	423,703	320,576
Other Personnel Benefits	3,093,680	4,131,609
	51,215,885	48,092,948

	2017	2016
Other Compensation		
Year-end bonus	3,471,084	3,998,372
Other personnel benefits	3,451,529	3,381,152
Other bonuses and allowances	3,072,402	4,259,886

Overtime and night pay	2,871,554	2,479,406
Productivity Incentive allowance	110,500	1,666,400
Clothing/Uniform allowance	111,439	237,267
Cash gift	420,000	0
Transportation allowance	81,467	48,126
	13,589,975	16,070,609

	2017	2016
Personnel Benefit Contribution		
Philhealth contributions	295,263	227,876
Pag-IBIG contributions	99,900	71,700
Employees compensation insurance premiums	28,540	21,000
	423,703	320,576

	2017	2016
Other Personnel Benefits		
Pension benefit	913,756	2,219,656
Terminal leave benefits	2,043,166	1,855,722
Members' benefits	136,758	56,231
	3,093,680	4,131,609

23. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

	2017	2016
Professional services	82,503,189	150,059,332
Taxes, insurance, premiums and other fees	1,792,284	797,494
Communication expenses	1,501,389	1,067,423
Utility expenses	753,441	849,463
Supplies and material expenses	496,251	394,355
Training and scholarship expenses	477,809	846,079
Security services	387,275	461,417
Travelling expenses	177,701	1,344,275
Repairs and maintenance	67,034	120,118
Other maintenance and operating expenses	5,873,165	5,197,133
	94,029,538	161,137,089

	2017	2016
Professional services		
Consultancy Services	82,490,789	150,049,107
Legal Services	12,400	10,225
	82,503,189	150,059,332

	2017	2016
Utility expense		
Electricity and water expenses	753,441	427,675
Other utility expenses	0	421,788
	753,441	849,463

	2017	2016
Supplies and material expense		
Fuel, oil, and lubricant	166,527	75,824
Supplies expenses	119,933	33,965
Semi-expendable machinery and equipment	19,006	63,801
Other supplies and material expenses	190,785	220,765
	496,251	394,355

	2017	2016
Other maintenance and operating expenses		
Rent/Lease expenses	3,885,511	2,376,415
Representation expense	506,662	324,096
Directors and committee members' fees	420,800	225,000
Advertising, promotional and marketing expenses	63,170	219,587
Other maintenance and operating expenses	997,022	2,052,035
	5,873,165	5,197,133

24. NON-CASH EXPENSES

	2017	2016
Depreciation	665,616	342,878
Amortization – Intangible assets	62,176	94,165
	727,792	437,043

	2017	2016
Depreciation		
Machinery and equipment	204,704	93,602
Leasehold improvements	202,623	213,878
Transportation equipment	146,307	0
Furniture, fixture and books	111,982	35,378
	665,616	342,878

25. 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 Company's earnings/loss per share was computed as follows:

	2017	2016
Net earnings/loss	1,217,095	12,363,119
Divided by the number of outstanding common shares (Note 20)	232,800	202,800
Earnings/loss per share	5.23	60.96

26. RELATED PARTY TRANSACTION

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 earning of P140.90 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 (Investment in Trust - Retirement Fund) at DBP Head Office, Makati City.

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

Particulars	2017	2016
Receivables – Professional Service Agreement	84,728,030	76,436,791
Cash in Bank – Current Account	30,752,058	24,791,974
Short-term investment	0	2,587,982
Investment in Trust – Retirement Fund	6,988,296	11,361,421
	122,468,384	115,178,168

27. 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 2017.

A. DBP Data Center Inc. is a VAT-registered company with VAT output tax declaration of P18.17 million based on the amount reflected in the Sales Account of P151.44 million.

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

Current year's purchases:

Goods other than for resale or manufacture	2,083,935
Services lodged under other accounts	10,055,461
	12,139,396

C. Other Taxes & Licenses

Local

Mayor's/Business Permit	1,776,010
Community Tax Certificate	10,500
Miscellaneous	5,274

National

BIR Annual Registration	500
	1,792,284

D. The amount of withholding taxes paid/accrued for the year amounted to:

Tax on compensation and benefits	8,079,242
Creditable withholding taxes (at source)	2,651,817
Final withholding taxes (VAT)	5,416,048
	<hr/>
	16,147,107

The above taxes were filed on or before the 10th day of the month following the applicable month.

The Corporation has no RATE case under preliminary investigation of the Department of Justice.

28. HIGHLIGHTS OF OPERATION

DBP Data Center, Inc. (DCI) has been continuously supporting DBP's Information Technology infrastructure for the past 35 years. In 2017, DCI continued to focus primarily on assisting the Bank's initiatives on various bank products by providing the workforce for the development and maintenance of the Bank's systems and applications. Further, DCI also started to seek opportunities to increase revenues by expanding its customer base to include government agencies and instrumentalities via an Agency-to-Agency Agreements.

Aligned with DCI's strategic plan, DCI pursues an aggressive business plan to deliver high-quality services, build an excellent team, and capture competitive market share in the industry.

Below are some of DCI's notable accomplishments/performance in 2017.

a. DBP Opportunities

1. DBP IT Staffing - Among DCI's core competencies is identifying the right people suitable for augmenting the IT staffing needs of the Bank. As of December 31, 2017, DCI has a total of 55 strong workforce working closely with the Bank's IT requirements.

b. Non-DBP Opportunities

The Company has started opportunities and negotiations on non-DBP projects focusing on government agencies and instrumentalities such as:

1. Zamboanga Del Norte Medical Center – This is an on-going project (5-year contract) where DCI provides Hospital Information System for the LGU hospitals.
2. Bureau of Customs – This is a project related to Cyber Security package solution, which was completed in the year 2016.
3. Jose B. Lingad Memorial Regional Hospital – This is a DOH hospital where we offered the Hospital Information System (HIS) BPO project with a contract of

five (5) years. Live-Production started in July 14, 2016. Implementing changes to hospital processes and workflows and monitoring End-User compliance to ensure smooth operations and correctness of data gathered by the system.

4. Cooperative Development Authority (CDA) - This project involves the software development of the Cooperative Member Registry System. Cooperatives would be able to upload and update cooperative members to this facility provided by CDA. Project is now ready for implementation in Production environment. Preparing Database upload from 7 Pilot Cooperative members (CM) before roll-out to 60 CMs. Mobile application is now activated and provides payment services to CMs.

5. Philippine Economic Zone Authority (PEZA) - A system development project composed of three modules. It is an enhancement of their existing Billing and Collection System (BCS), Electronic Application for Registration System (EARS) and Engineering Permit Application Monitoring System (EPAMS).

6. PNP Online Police Clearance (Cebu City) - An ongoing Online Application for Philippine National Police (PNP) Clearance project which piloted in Cebu City. A system provided to PNP Cebu City at no cost to the agency through a servicing partner that DCI engaged via Direct Contracting. It is part of the PNP's National Police Clearance Project implemented in Q1 of 2017.

7. Professional Regulations Commission (PRC) - This is an Online Payment and Collection System (EPCS) related to Professional Licenses.

8. Bangko Sentral ng Pilipinas - This is an engagement that entails supply, delivery, installation, configuration, testing and implementation of Human Resource Information System (HRIS). The project shall be for a maximum period of one year that started 17 January 2017.

9. Bureau of Treasury (BTr) - Consulting Services to enhance IT infrastructure and strengthen ICT capacity project. This project aims to address BTr's IT requirements and gaps to effectively and efficiently support BTr's enhancement of its Information Management Infrastructure (IMI), address critical requirements in Application Systems Deployment, assists in the formulation of its Information Systems Strategic Plan (ISSP) and develop and implement a Back Up and Disaster Recovery framework.

29. Compliance with COA Circular No. 2016-006

DBP Data Center, Inc. (DCI) has complied with the implementation of COA Circular No. 2016-006, the Revised Chart of Accounts.

PART III

**STATUS OF IMPLEMENTATION OF PRIOR
YEARS' AUDIT RECOMMENDATIONS**

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the four audit recommendations embodied in the CY 2016 AAR, three were reiterated in Part II of the Report and one was not implemented, as follows:

Observations and Recommendations	Actions Taken
<p>Additional retirement benefits and group life insurance premiums of DCI officers and employees amounting to P2.220 million and P0.151 million, respectively, were not included in the DCI total compensation package which was posted in its website, contrary to Section 25 (h) of RA 10149, thus, the Corporation is non-compliant with the requirements on good Corporate Governance.</p>	Not implemented.
<p>Disclose the benefits under the Retirement Gratuity Plan and the group life insurance in its Website to comply with the disclosure requirement of RA 10149.</p>	

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The Corporation failed to file legal action or proceeding for the recovery of VAT within the two-year prescriptive period under Section 229 of the National Internal Revenue Code, hence, the right to claim has prescribed. No allowance for impairment loss was provided to the account despite the high improbability of its recovery, thus, the balance of Accounts Receivable - Non-Trade- BIR account amounting to P13.133 million was not faithfully represented as at December 31, 2017.

1.1. In the case of Deutsche Bank Manila Branch vs. Commissioner of Internal Revenue, the Supreme Court emphasized:

"Section 229 of the NIRC provides the taxpayer a remedy for tax recovery when there has been an erroneous payment of tax. X x x. (underscoring supplied)"

1.2. Section 229 of the National Internal Revenue Code (NIRC) provides:

"Sec. 229. Recovery of Taxes Erroneously or Illegally Collected. — No suit or proceeding shall be maintained in any court for the recovery of any national internal revenue tax hereafter alleged to have been erroneously or illegally assessed or collected, or of any penalty claimed to have been collected without authority, or of any sum alleged to have been excessively or in any manner wrongfully collected, until a claim for refund or credit has been duly filed with the Commissioner; but such suit or proceeding may be maintained, whether or not such tax, penalty, or sum has been paid under protest or duress.

In any case, no such suit or proceeding shall be filed after the expiration of two (2) years from the date of payment of the tax or penalty regardless of any supervening cause that may arise after payment: Provided, however, That the Commissioner may, even without a claim therefor, refund or credit any tax, where on the face of the return upon which payment was made, such payment appears clearly to have been erroneously paid. (emphasis supplied)"

1.3. Also, in the case of CIR vs. Primetown Property Group, Inc., the Supreme Court held that:

"The rule is that the two-year prescriptive period is reckoned from the filing of the final adjusted return."

1.4. On the other hand, paragraph 9 of the Philippine Accounting Standards (PAS) 36 on impairment of assets provides:

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

1.5. DCI is a government-owned-and-controlled corporation engaged in information technology services for government and non-government institutions. For purposes of taxation, it is a Value-Added Tax (VAT) - registered company.

1.6. In a letter dated March 18, 2009 to the Bureau of Internal Revenue (BIR), the Corporation requested a Tax Credit Certificate for the alleged erroneous payment of the net VAT payable for years 2006, 2007 and 2008 totaling P13,133,233.46.

1.7. A Final Decision on Disputed Assessment dated October 7, 2016 was issued by the BIR which did not consider the tax credit certificates claimed by the DCI.

1.8. On November 11, 2016 Management filed an Appeal Letter with the BIR requesting, among others, re-consideration in the assessment for Taxable Year 2007 of the Tax Credit Certificates requested by the DCI. No response from the BIR has been received and as of December 31, 2017, the said amount remained uncollected.

1.9. Audit disclosed that Management was unable to file the necessary suit or proceeding within two years from date of payment of taxes which were allegedly erroneously collected by the BIR from DCI. Recovery of the erroneous payments made in 2006, 2007 and 2008 was not filed with the BIR within two years from their payments.

1.10. Audit of the Financial Statements and Notes to FS also showed that the Corporation continues to recognize the alleged erroneous payment of VAT pending refund from the Bureau of Internal Revenue (BIR) as Accounts Receivable - Non-trade totaling P13.133 million as of December 31, 2017, as a current asset when BIR's issuance of its final decision not to recognize the claims renders collection highly improbable in the future, more so, within the next 12 months from reporting date.

1.11. DCI's inaction to file suit or proceeding within the reglementary period of two years has deprived the Corporation of its right to recover the alleged erroneous payment of VAT.

1.12. Verification also revealed that, in spite of the improbability of collection based on existing circumstances, DCI has not provided the corresponding allowance for impairment loss on Accounts Receivable - Non-trade totaling P13.133 million to faithfully represent the balance of the account as at December 31, 2017.

1.13. The collectibility of the Accounts Receivable - Non-trade from BIR has become remote because when the right to claim refund has already prescribed, recovery is highly improbable, risking future economic benefits to the Corporation, thus, overstating DCI's asset and income by P13.133 million.

1.14. We recommended that Management:

- a. Provide an allowance for impairment loss on the P13.133 million Accounts Receivable – Non-Trade, representing receivable for the erroneous payment of VAT without probability of recovery; and
- b. Undertake the required procedures on write off of dormant receivables without probability of collection under COA Circular No. 2016-005 dated December 19, 2016.

1.15. During the Exit Conference, Management commented that they will elevate the matter to the Board for the write off and/or provision of Allowance for Impairment Loss.

2. Pension benefits payable were not discounted using actuarial assumptions, contrary to PAS 19 on accounting for employee benefits, while accruals of pension expenses of undetermined amount for resigned/retired employees were not derecognized, thus, the balance of the account amounting to P19.016 million was not faithfully represented as at December 31, 2017.

2.1. PAS 19, Employee Benefits, prescribes the accounting for employee benefits. The employee benefits under this Standard include those provided under formal plans or informal practices that give rise to a constructive obligation.

“30 Under defined benefit plans:

- (a) the entity's obligation is to provide the agreed benefits to current and former employees; and*
- (b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.”*

“57 Accounting by an entity for defined benefit plans involves the following steps:

(a) determining the deficit or surplus. This involves:

- (i) Using actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit;*

- (ii) *discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost;*
- (iii) *deducting the fair value of any plan assets from the present value of the defined benefit obligation;*
- (b) *determining the amount and the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.*
- (c) *determining amounts to be recognized in profit and loss:*
 - (i) *current service cost*
 - (ii) *any past service cost and gain or loss on settlement*
 - (iii) *net interest on the net defined benefit liability (asset)*
- (d) *determining the remeasurements of the net defined benefit liability (asset), to be recognized in other comprehensive income, comprising:*
 - (i) *actuarial gains and losses;*
 - (ii) *return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and*
 - (iii) *any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset)."*

2.2. Moreover, paragraph 4.4 (b) of the Conceptual Framework of the Philippine Financial Reporting Standards (PFRS) defines:

"A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits."

2.3. On fundamental principles of financial transactions and operations of any government agency, Section 4 (6) of Presidential Decree (PD) No. 1445 provide:

"Claims against government funds shall be supported with complete documentation."

2.4. On June 1, 1998, the DCI established a Trust Fund with the DBP Trust Banking Group as trustee of the Retirement Gratuity Plan which serves as the source of the retirement benefits paid out to the qualified employees.

2.5. Article V Sections 2 and 3 of the Employees' Retirement Plan of DCI state the nature and type of the retirement benefits that the retiring employee shall receive:

Section 2. Normal Retirement Benefit

The normal retirement benefit shall be equivalent of one (1) month's pay per year of service. Xxx

Section 3. Early Retirement Benefit

Upon the attainment of at least age thirty-two, and five (5) years of service for the Participant hired before July 1, 1994, a Participant may retire and shall be entitled to the following applicable benefits:

Years of Service	Benefit Formulas
5-9	½ month's pay for every year of service
10 or more	1 month's pay for every year of service

Upon the attainment of at least age thirty-two, and ten years of service for the Participant hired after July 1, 1994, a Participant may retire and shall be entitled to the following applicable benefits:

Years of Service	Benefit Formulas
10	50% of one (1) mo.'s pay / yr. of service
11	55% of one (1) mo.'s pay / yr. of service
12	60% of one (1) mo.'s pay / yr. of service
13	65% of one (1) mo.'s pay / yr. of service
14	70% of one (1) mo.'s pay / yr. of service
15	75% of one (1) mo.'s pay / yr. of service
16	80% of one (1) mo.'s pay / yr. of service
17	85% of one (1) mo.'s pay / yr. of service
18	90% of one (1) mo.'s pay / yr. of service
19	95% of one (1) mo.'s pay / yr. of service
20 or more	100% of one (1) mo.'s pay / yr. of service

2.6. On a monthly basis, past service pension cost expense should be accrued based on the accounting policy as follows:

The Corporation provides a monthly pension expense and the corresponding liability equivalent to 1/12 of the monthly salary of all active regular employees.

2.7. Audit was conducted on the recognition and measurement of DCI's retirement benefits recognized as defined benefit plan. The financial statements as of December 31, 2017 showed outstanding balances of P6,988,296 for Investment in Trust - Retirement Fund, 19,016,777 Pension Benefit Payable, and P913,756 Pension Expense.

2.8. DCI Chart of Accounts, however, does not provide a definition of Pension Benefits Payable and Investment in Trust – Retirement Fund but defines the foregoing accounts as:

- a. Past Service Pension Cost Payable – This represents the accumulated retirement benefit costs charged against the income of the company over the expected remaining working lives of the participating employees.
- b. Pension Expense – Allocated and accrued pension cost of employees based on the years of service in line with the adoption of the trust fund.

2.9. The Pension Benefit Payable of P19,016,777 in the statement of financial position is composed of past service pension cost payable of P12,028,480 and pension payable of P6,988,296. As noted, the Chart of Accounts does not include the description of the pension payable account.

2.10. Review of Journal Vouchers (JV), Trial Balance, Financial Statements and corresponding Notes, as well as inquiry with Management related to the Retirement Gratuity Plan, showed the following:

- a. Past Service Pension Cost Payable is credited to accrue the pension expenses representing 1/12 of monthly salary of all active employees, with the corresponding debit to Pension Expenses. The accrual is made as soon as the employee has already rendered his first month of service. No subsidiary ledger or reports has been provided to the audit team to show details of the P12.028 million outstanding balance as of December 31, 2017.
- b. During the year, Management accrued a total of P0.914 million pension expenses for its active employees from January to April 2017 and did not accrue further from May to December. Management disclosed that accrual of pension expense was discontinued because of the significant decrease in employee complement of DCI following the closure of its contract with DBP. No documents were provided to support the decision to stop the accruals.
- c. Management informed that the amount accrued for the employees' pension costs is not reversed even when an employee resigns or retires from the Company, thus, the Past Service Pension Cost Payable account of P12.028 million is overstated as it still includes accruals for employees who have resigned or retired from the Company. In the absence of a subsidiary ledger or a detailed scheduled, computation of the overstatement of the account is improbable as it could not be determined how many employees are included in the accruals, whether said employees are all still with DCI, and by how much has been accrued for each employee.
- d. Pension Payable account was observed to have a balance equivalent to the Investment in Trust–Retirement Fund account. Management explained that the said payable account was a one-time set up in 2011 and has been debited only for every payout made to retiring employees.

It was not disclosed how much was set up. On the other hand, the account is credited for increases in the Investment in Trust-Retirement Fund account. The adjustment is made upon submission by the DBP Trust Banking Group of a portfolio report on the balances and performances of the fund. No subsidiary ledger was provided for the Pension Payable Account.

- e. During the year, it was noted that the Pension Payable was derecognized and Investment in Trust-Retirement Fund was recognized each by P4.373 million, bringing down both account balances from P11,361,421.10 at the beginning of the year to P6.988 million by the end of the year. The balance has been verified against the portfolio report obtained from the team auditing the DBP Trust Services Department. The net decrease of P4.373 million were due to interest income/service charges on the Investment in Trust – Retirement Fund of P132,491 and the P4.506 million benefit payouts to four employees who retired during the year, as follows:

Employee	Amount (PhP)
1	2,524,134.69
2	255,923.04
3	1,531,958.40
4	193,600.00
Total	4,505,616.13

The audit team, however, was not provided with the approved voucher and supporting documents to substantiate the movements in said accounts, except for copies of the letters from the President and CEO of DCI to the Head, DBP – Trust Services Department, dated October 26, 2017. Said letters requested preparation of retirement checks payable to the abovementioned employees who separated from office after more than 11 to 34 years in service. In the absence of other supporting documents to prove that such benefit payout has been approved by authorities and duly received by the retirees, as well as other supporting documents to fully account for the supposed total benefit payout of P4.506 million, validity of the benefit payouts and the accuracy of decreases in the Pension Payable and Investment in Trust-Retirement Fund accounts is not established.

- f. Investment in Trust – Retirement Fund is debited when there is additional infusion of fund with a corresponding credit to Cash In Bank. During the year, there was no additional investment to the fund. As discussed, the account was credited by P4.373 million as validated from the portfolio report prepared by the DBP-Trust Services Department. No subsidiary ledger was provided for this account.
- g. The Notes to Financial Statements (FS) disclose that DCI has adopted PAS 19, Employee Benefits, in the accounting for its long-term and other employee benefits requiring 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. This is, however, contrary to DCI's practice of recognizing its employee benefits by simple accrual without engaging the services of an actuary to determine present value of the obligations and the fund that DCI has to set aside to meet its obligations. It was also verified that DCI does not recognize actuarial gains and losses in Other Comprehensive Income, implying that no actuarial technique was used in the measurement of the retirement benefit.

- h. Management informed that it has initially coordinated with an actuarial expert to determine the valuation of the benefit obligation, however, the valuation was not yet employed as of December 31, 2017. Review of Purchase Order No. 1938 showed that the PO was cancelled and/or no payment was made and/or there has been no output.

2.11. Our audit disclosed that DCI has not accounted for its employee benefits under the Retirement Gratuity Plan, considered as defined benefit plan, in accordance with paragraph 27 of PAS 19. The Past Service Pension Cost Payable of P12.028 million expected to be settled several years after services have been rendered was not discounted to its present value using actuarial assumptions.

2.12. Moreover, Past Service Pension Cost Payable includes accrued pension expenses for employees no longer connected with DCI by virtue of resignation or retirement. Accrual of these balances in which DCI no longer has any present obligation is contrary to paragraph 4.4 (b) of the Conceptual Framework of PFRS, which provides that to be considered a liability, there must exist a present obligation.

2.13. Further, our audit also disclosed that the retirement benefit payouts amounting to P4.506 million were not supported with complete documentation, contrary to Section 4(6) of PD 1445. The claims were supported only by a list of names of the four retirees with the corresponding retirement benefits paid out to them and a letter from the DCI President and CEO requesting the DBP Trust Services Department to prepare a retirement check payable to one of the four retirees for the year. Said documents, however, were not sufficient to establish the validity of the claims from government funds.

2.14. Valuation of Past Service Pension Cost Payable and Pension Payable which were not discounted, does not give relevant information as to the present value of DCI's obligations under the Retirement Gratuity Plan. Moreover, the non-reversal of accruals of pension expenses for employees no longer connected with DCI overstated the Past Service Pension Cost Payable that need further measurement on a discounted basis.

2.15. On the other hand, the absence of supporting documents to show proof of approvals by appropriate authorities and the bases for the computation of retirement benefit payouts casts doubt on the regularity of the transaction.

2.16. **We recommended that Management:**

- a. **Review Past Service Pension Cost Payable and reverse accruals made for employees no longer connected with DCI;**

- b. Account for employee benefits in accordance with the provisions of PAS 19, using actuarial assumptions;
- c. Prepare the necessary adjusting journal entries, as a result of the valuation; and
- d. Submit documents showing proof of approvals by authorities and the bases and details of the computation of the P4.506 million retirement benefits granted to retirees in 2017 withdrawn from the retirement fund.

2.17. During the Exit Conference, Management committed to review the account and make the necessary adjustments in 2018. Management will also submit the required documents.

3. **Subsidiary ledgers for receivables and payables were not maintained, contrary to Section 114 , Chapter II of Presidential Decree (PD) No. 1445, thus, validity of recorded balances were not established.**

3.1. Section 114, Chapter II of Presidential Decree (PD) No. 1445 provides:

Section 114. The general ledger.

(1) The government accounting system shall be on a double entry basis with a general ledger in which all financial transactions are recorded.

(2) Subsidiary records shall be kept where necessary.

3.2. DCI's Accounting Manual has been developed consistent with the principles, standards and procedures prescribed under existing laws, rules and regulations, such as the Philippine Financial reporting Standards (PFRS).

3.3. Item J.2, Section II of the Manual, on receivables, provides:

Subsidiary ledgers for receivables should be maintained and kept to date to facilitate verification and for control purposes. The total of these subsidiary ledgers should reconcile with the General Ledger (GL) control account.

3.4. Item L.2, Section II of the Manual, on payables, provides:

Subsidiary ledgers for payables should be maintained to have ready reference of individual account balances and at the same time facilitate verification. The total of these subsidiary ledgers should tally with the GL.

3.5. The notes to FS showed receivables account broken down into trade and non-trade, amounting to P105,464,270 and P14,905,915, respectively, with an Allowance for Probable Losses of P745,281.

3.6. The accounts payable, on the other hand, consists of payables to Suppliers/business partners, P36,101,652; Service providers, P20,432,111; and, Others, P554,262.

3.7. Audit showed that subsidiary ledgers (SL) for receivables and payables as of December 31, 2017 to support recorded amounts as well as aging schedules were not maintained. Only the general ledger for accounts payable, which also served as their "aging schedule" were submitted for audit, hence, we were not able to evaluate the completeness and validity of the amount of payables to each individual payee/supplier/creditor.

3.8. **We recommended and Management agreed to:**

- a. **Prepare and maintain updated subsidiary ledgers for the receivables and payables as of December 31, 2017 and from those SLs, prepare the Aging Schedules; and**
- b. **Comply with the pertinent provisions of the DCI Manual on maintenance of subsidiary ledgers to facilitate verification and monitoring of individual accounts.**

4. **Information about major classes of gross cash receipts and gross cash payments could not be traced from the books of accounts where the transactions were allegedly sourced.**

4.1. On accounts and accounting, Chapter II of Presidential Decree (PD) No. 1445 provides

"Section 111. Keeping of accounts.

- i. *The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*

4.2. Par. 19 of the Philippine Accounting Standards (PAS) 7 states:

"Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

- (a) From the accounting records of the entity; or*
- (b) By adjusting sales, cost of sales x x x, and other items in the statement of comprehensive income x x x. (emphasis ours)"*

4.3. DCI reported its cash flows from operating activities using the direct method. The supporting computations showed that the information were purportedly

obtained from the accounting records, particularly its books of accounts, namely, Cash Receipts Register (CRR), Accounts Payable Register (APR), Journal Book (JB), and Journal Vouchers (JVs).

- 4.4. Verification of the amounts in the cash flows against the books of accounts, however, showed amounts which could not be traced from the source accounting records, or were included in the accounting records but not reported in the statement of cash flows. These are:

Operating activities	Transaction month	Amount Addition to/ (Deduction from)	Remarks
Cash receipts from customers	January	(63,544.00)	Not in JB/JV, reported in cash flows
	April	724,500.00	In CRR, not reported in cash flows
	September	490,760.00	Not in CRR, reported in cash flows
Subtotal		1,278,804.00	
Cash payments to supplier	January	(14,121,847.68)	Not in JB/JV, reported in cash flows
	August	12,856,637.00	Not in JB/JV, reported in cash flows
	October	8,213,822.63	Not in JB/JV, reported in cash flows
	December	6,228,115.51	Not in JB/JV, reported in cash flows
Subtotal		41,420,422.82	
Cash paid for operating expenses	January	63,544.00	Not in JB/JV, reported in cash flows
	January	(17,933.25)	Not in APR, reported in cash flows
	February	25,910.00	Not in JB/JV, reported in cash flows
	February	(0.02)	Not in JB/JV, reported in cash flows
	February	(2,704,825.49)	Not in APR, reported in cash flows
	March	30,573.75	Not in JB/JV, reported in cash flows
	March	(2,350,506.75)	Not in APR, reported in cash flows
	April	(1,869,413.20)	Not in APR, reported in cash flows
	May	(4,615,542.76)	Not in APR, reported in cash flows
	September	6,389,174.05	Not in JB/JV, reported in cash flows
	November	149.00	Not in JB/JV, reported in cash flows
	December	(4,143.14)	Not in JB/JV, reported in cash flows
Subtotal		18,045,805.41	
Total absolute amount		60,745,032.23	

4.5. We were not able to obtain sufficient appropriate evidence about the validity and propriety of the reported cash flows from operating activities owing to unsubstantiated and unavailable information on cash receipts and payments for 2017.

4.6. We recommended that Management reconcile cash flows with the accounting records and make necessary adjustments/updates. Henceforth, ensure that cash flow information are completely reported and supported by data from accounting records.

5. Absence and/or delays in the preparation of JVs and supporting documents, contrary to Sections 121 and 122 of PD No. 1445 and DCI Manual on bookkeeping and accounting, cast doubt on the validity of transactions amounting to P301.505 million.

5.1. On accounting reports, Chapter 3 of PD 1445 provides:

"Section 121. Financial reports and statements.

(1) *The financial reports prepared by the agencies shall comply with the specific requirements of applicable laws and regulations as to nature, accounting basis, content, frequency, and distribution as well as with all applicable restrictions pertaining to information that is classified for national security purposes.*

(2) *The financial statements shall be based on official accounting records kept in accordance with law and the generally accepted accounting principles and standards.*

Section 122. Submission of reports. Whenever deemed necessary in the exigencies of the service, the Commission may under regulations issued by it require the agency heads, chief accountants, budget officers, cashiers, disbursing officers, administrative or personnel officers, and other responsible officials of the various agencies to submit trial balances, physical inventory reports, current plantilla of personnel, and such other reports as may be necessary for the exercise of its functions."

5.2. DCI's Accounting Manual has been developed consistent with the principles, standards and procedures prescribed under existing laws, rules and regulations, such as the Philippine Financial reporting Standards (PFRS).

5.3. Item A.5, Section II of the Manual, on timely recognition in accounting records, states:

"Accounting transactions should be recorded on a timely basis so that material information applicable to each accounting period will be shown in the records. X x x."

5.4. Item B.4, Section II of the Manual, on general policies, bookkeeping and accounting, provides:

"Journal entries are supported by journal vouchers duly checked and approved by the Finance Head & Admin and Finance Head, respectively."

5.5. In the preparation of financial statements, DCI uses a working paper which summarizes the information necessary to complete several steps in the accounting cycle. It is an analysis paper bridging the trial balance to the financial statements. Any adjustment as a result of the analysis was recorded in the general journal and posted to the general ledger.

5.6. Review of the working paper showed that the debit and credit entries for each account were supported with entries in the books of accounts of DCI, which include the Sales Register, Cash Receipts Register, Cash Disbursements Register, and Accounts Payable Register. All other entries not coming from said books were lodged under "Adjustments" column of the working paper.

5.7. Audit disclosed however, that said adjustments were not supported with JVs, contrary to DCI's general policies on bookkeeping and accounting, requiring JVs to be

duly checked and approved by the Finance Head & Admin and Finance Head, respectively, as supporting documents. The total adjustments not supported with documents affecting 28 accounts amounted to P149.188 million.

5.8. The accounts and their corresponding entries for the month of December 2017 without JVs are as follows:

	Account name	Debit entries	Credit entries
1	Accounts Payable - Others	4,627,850.00	
2	Accounts Receivables - DBP	7,781,981.96	(339,428.92)
		25,958,924.23	(1,046,473.41)
			(5,183,192.00)
3	Accrued Gift Certificates	90,000.00	
4	Accumulated Dep. - Fur/Fixtures		(19,588.44)
5	Accumulated Dep. - Off. Equip.		(14,531.25)
6	Accumulated Dep. - Transp. Equip.		(146,307.36)
7	Accumulated Dep.-Computer Equip.		(20,294.04)
8	Advances to Officers & Employees		(28,944.78)
9	Computer Equipment - In Transit		(3,051,842.86)
10	Creditable Income Tax		(7,017,259.20)
11	Depreciation - Computer Equipment	20,294.04	
12	Depreciation - Furniture & Fixtures	19,588.44	
13	Depreciation - Off. Mach. & Equip.	14,531.25	
14	Depreciation - Transp. Equip.	146,307.36	
15	Excess Input VAT	954,174.83	
16	Gift Certificate		(90,000.00)
17	Input Tax		(10,986,918.62)
18	Investment in Trust - Retirement		(4,373,124.97)
19	Local Travel	28,944.78	
		339,428.92	
		387,406.00	
20	Output Tax		(364,081.07)
			(387,750.00)
			(408,885.91)
		555,342.00	
		812,700.85	
			(833,783.78)
			(2,781,313.31)
		17,050,002.99	
21	Pension Payable	4,373,124.97	
22	Receivable - Others	3,398,090.00	
		3,619,000.00	
		3,816,268.46	
			(6,926,140.48)
23	Service Income		(355,539.69)
			(3,034,008.93)
			(3,231,250.00)
			6,772,507.04
			(6,948,198.18)
			(23,177,610.92)
24	Stationeries & Office Supplies	98,618.97	
25	Telephone, Telegram & Postage	51,437.99	
26	Unused Supplies		(275,189.85)

	Account name	Debit entries	Credit entries
27	Vacation Leave		(173,177.89)
			(277,043.00)
28	Vacation Leaves Payable	173,177.89	
		277,043.00	
	Total	74,594,238.93	(74,594,238.93)

5.9. Management was unable to produce the JVs and supporting documents to the adjustments made. Inquiry disclosed that adjustments were made on the working paper ahead of the preparation of the JVs.

5.10. There were also at least two JVs which were prepared upon request during the audit in May 2018, or months after the transactions have occurred in July and August 2017.

5.11. Our audit also disclosed that 32 JVs for transactions amounting to P152,317,886 were not supported with billings, invoices, official receipts, schedules, computations and other pertinent documents. Affected accounts are as follows:

Account name	No. of Transactions	Net Debit/(Credit)
Assets:		
Accounts Receivable - DBP	11	36,893,694.13
Accounts Receivable - Non-DBP	7	(18,754,677.79)
Cash in Bank - DBP IB	4	(2,657,162.26)
Accounts Receivable - Others	1	1,189,260.80
Cash in Bank	1	204,000.00
Prepaid Expenses - Others	1	30,000.00
Short-term Investment	1	6,763.87
Accrued Interest Receivable	1	(831.03)
Liabilities:		
Accrued expenses-Others	5	(17,736,888.63)
Dividend payable	2	(6,181,559.50)
Output Tax	17	(2,082,456.33)
Withholding Tax Payable	4	(94,280.07)
Equity:		
Retained Earnings	2	9,181,559.50
Capital Stock	1	(3,000,000.00)
Income:		
Service Income	17	(17,353,802.69)
Interest Income	1	(5,932.84)
Expenses:		
Service Fees	4	17,579,071.98
Gift Certificate	2	395,000.00
Mid-Year Bonus (PEI/PBB/PBI)	2	2,057,442.33
Local Travel	1	107,981.88
PEI/PBB/PBI	2	395,000.00
Salaries and Wages	1	(300,000.00)
Telephone, Telegram & Postage	1	157,816.65
Optical/ Dental	1	(30,000.00)

5.12. We recommended that Management:

- a. Produce and submit the JVs and source documents to support the adjusting entries for the month of December 2017;
- b. Provide schedules, reconciliations, analysis and computation to the 32 journal entries, including source documents; and
- c. Prepare JVs as transactions occur, and submit to the Auditor all JVs supporting transactions for the month, within 10 days from end of the month.

B. COMPLIANCE AUDIT

6. Disbursements amounting to P18.385 million were not supported with contract and documents required under Section 3 of COA Circular No. 2009-001, thereby casting doubt on the regularity of said disbursements.

6.1. Section 4 of PD No. 1445 sets forth the fundamental principles of financial transactions and operations of any government agency, to wit:

"Xxx

(1) No money shall be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority.

(2) X x x.

(3) X x x.

(4) X x x.

(5) Disbursements or disposition of government funds or property shall invariably bear the approval of the proper officials.

(6) Claims against government funds shall be supported with complete documentation.

(7) All laws and regulations applicable to financial transactions shall be faithfully adhered to.

(8) X x x."

6.2. Pursuant to PD No. 1445, Section 3 of COA Circular No. 2009-001 dated February 12, 2009 provides that:

"3.1.1 Within five (5) working days from the execution of contract by the government or any of its subdivisions, agencies or instrumentalities, including government-owned or controlled corporations and their subsidiaries, a copy of said contract and each and all of the documents

forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned. Xxx.

"3.2.1 A copy of any purchase order irrespective of amount, and each and every supporting document, shall, within five (5) working days from issuance thereof, be submitted to the Auditor concerned. Xxx"

6.3. Paragraph 3.1.2 of the same COA Circular enumerates the documents required to be submitted.

6.4. Moreover, COA Circular No. 2009-001 provides for a penalty clause for non-compliance to its requirements, to wit:

"4.1 Any unjustified failure of the officials and employees concerned to comply with the requirements herein imposed shall be subject to the administrative disciplinary action provided in (a) Section 127 of Presidential Decree No. 1445; (b) Section 55, Title I-B, Book V of the Revised Administrative Code of 1987; and (c) Section 11 of Republic Act No. 6713."

6.5. In previous audit exit conferences and meetings, the audit team has reminded Management of the requirements of COA Circular No. 2009-001 on submission of contracts/POs, together with the required supporting documents, within the reglementary period of five days from execution thereof, to enable auditors to conduct auditorial review of said contracts/POs in a timely manner.

6.6. Review of CY 2017 disbursements disclosed the following:

- a. JV No. 6 dated January 9, 2017 amounting to P17.550 million was not supported with contract together with the supporting documents required under COA Circular No. 2009-001. Verification of the attached documents which included Collection Receipt, Request and Statement of Account, merely supported that disbursements of P17.550 million have been made in relation to payments to an IT-related supplier, for an undetermined goods or services. Based on the Statement of Account, total unit price was P52.232 million of which, 70 per cent or P36.562 million was already paid.
- b. Twenty-three check vouchers (CV) covering disbursements for procurement of goods and services amounting to P0.835 million were not supported by contracts and/or purchase orders (PO).

6.7. Management did not submit the contract and supporting documents, hence, contract review was not undertaken.

6.8. The lack of complete documents to support the payments and accruals of financial transactions and operations is contrary to COA Circular No. 2009-001 and Section 4 of P.D. 1445.

6.9. We recommended and Management agreed to:

- a. Submit the contracts and POs and all the required supporting documents related to the P 18.385 million payments; and
- b. Submit contracts/POs and all the required supporting documents within 5 working days from execution in accordance with COA Circular No. 2009-001.

7. Non-conduct of physical inventory, and weaknesses in controls to manage properties, including errors in recognition of property and equipment, cast doubt on the integrity of property custodianship and faithful representation of the balances of Property and Equipment with net book value of P4.531 million as at December 31, 2017.

7.1. Section V of COA Circular No. 80-124 dated January 18, 1980 provides guidelines for inventory-taking as follows:

1. *Creation of Inventory Committee*
2. *Property Identification and Coding*
3. *Issuance of Memorandum Receipt*
4. *Preparation of Inventory Reports and reconciliation with accounting and inventory records*

7.2. Item N, Section II of DCI's Accounting Manual provides:

"N. On Property and Equipment Control

1. *Fixed asset ledger card should be provided for every fixed asset item.*
2. *Fixed assets of the company should be adequately covered by insurance.*
3. *Complete physical inventory count for fixed assets should be conducted at least once a year to check their existence and condition. The count should be under the supervision of the Senior Accountant and/or Finance Manager."*

7.3. Republic Act No. 656 known as the Property Insurance Law which created and established a Property Insurance Fund administered by the Government Service and Insurance System (GSIS) requires the insurance of government properties with the Fund.

7.4. Paragraph 55 of Philippine Accounting Standard (PAS) 16 Property, Plant and Equipment prescribes the period when to start depreciation of an asset, as follows:

"55 Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Xxx"

7.5. The examination of various PPE included in the schedule disclosed transactions and practices which were contrary to the pertinent provisions COA Circular No. 90-124, DCI's Manual on property and equipment control, and PAS 16, to wit:

a. No physical count of PPE as of December 31, 2017 was conducted by DCI Management, hence, no inventory report was prepared and reconciled with accounting records as of December 31, 2017. Except for the 17 Furniture and Fixtures, 14 Computer Equipment and one item of Office Machine and Equipment which were inspected by the Audit Team on a random basis, details of condition, location, and existence of all other assets were not confirmed.

b. One printer was without property identification and coding; and, three others were not checked as to their existence, or proper identification, or whether they were in the possession of employees who signed the corresponding MRs, as they were either on leave or with their clients according to Management.

c. Only 17 MRs were presented and verified by the Auditor. Based on the PPE lapsing schedules as of December 31, 2017, there must be at least 77 MRs signed by an officer or employee who received and is in actual possession or physical control of Computer Equipment, Office Machine and Equipment and Transportation Equipment. Thus, it cannot be determined who are in actual possession or have physical controls of the properties. It cannot also be determined whether MRs for PPE acquired in 2014 and prior years were renewed every three years.

d. Fixed asset ledger cards were not maintained for each asset item. Management informed that the procedure was discontinued, without stating the reasons thereof. Correct maintenance of fixed assets ledger allows accurate computation of depreciation of assets. It also makes easier to identify and remove assets that are written off or disposed. With accurate records on hand, it also aids determination of adequate insurance coverage and facilitate claims for the insurance cover of the assets.

e. Fixed assets of DCI are not covered by insurance. Management confirmed that insurance application for properties was not yet processed. Verification of the insurance expense account for CY 2017 showed that only the company car is covered by insurance. The company car was, however, not insured with the Government Service Insurance System (GSIS).

f. The lapsing schedules as of December 31, 2017 for the Furniture and Fixtures and the Office Machine and Equipment do not show the number of units per item. For the Computer Equipment, 23 of 37 items do not indicate the number of units per item. An item of Apple Macbook purchased on February 24,

2010 for a total cost of P371,875 does not indicate the number of items for that particular purchase.

g. It is Management's practice to record PPE based on staggered payments, instead of the total cost of the item upon delivery and non-inclusion of installation costs directly attributable to the cost of the PPE. Thus, net book value of PPE was understated by P62,777 and depreciation expense was understated by P1,445.

h. Computer equipment in transit account amounting to P P6.680 was recognized as asset in the books without proof of ownership or control. Review disclosed that P2.852 million in accounts payable to a supplier was based on billing statements for the terminal rental including sim card relative to DCI's Reseller Agreement with said supplier where DCI is the reseller of supplier's services. The terminal rental is for the computer equipment owned by the supplier provided to DCI for the Card Acquiring System of DBP. These rentals which amounted to P2.852 million for the year was debited to Computer Equipment – In Transit account with a corresponding AP – Others account. It cannot be determined how the rental accruals were derived as no document was submitted to show the computation and the bases for the computation. Also, a Computer Equipment – In Transit account was debited by P3.828 million with a corresponding AP-Others in favor of another supplier based on the Sales Invoice which does not indicate the shipping method, shipping date and unit of item shipped. There were no other documents submitted to show proof ownership of the equipment by DCI.

7.6. Lapses in the handling and management of property and equipment as discussed in previous paragraphs and the erroneous recognition of PPE and improper computation of depreciation cast doubt on the completeness, integrity of property custodianship and faithful representation of the balances of the Corporation's Property and Equipment with net book value of P4,530,656 as at December 31, 2017.

7.7. **We recommended and Management agreed to:**

- a. **Conduct physical inventory in accordance with COA Circular No. 80-124 and reconcile report with accounting records;**
- b. **Label all the properties lacking proper identification and append on the prominent part of the property;**
- c. **Require the officers and employees in possession or physical control of property and equipment sign Memorandum Receipts (MRs) and renew MRs every three years;**
- d. **Maintain fixed asset ledger cards for each asset item;**
- e. **Insure with the GSIS insurable risks of fixed assets;**
- f. **Include in the PPE lapsing schedules the number of units per item purchased, to facilitate reconciliation with inventory report; and**

g. Recognize properly the cost of PPE and calculate depreciation in accordance with PAS 16, and make the necessary adjusting entries.

8. Considerable delay in the submission of the complete set of financial statements (FS) and all records and documents within due dates, contrary to existing laws, rules and accounting regulations, precluded timely completion of audit.

8.1. Section 41 of P.D. 1445 points out the responsibility of the Chief Accountant or equivalent official of a government agency to submit the required financial statements, reports and supporting documents to COA, and the corresponding sanction, thus:

(2) *To carry out the purposes of this section, the chief accountant or the official in charge of keeping the accounts of a government agency shall submit to the Commission year-end trial balances and such other supporting or subsidiary statements as may be required by the Commission not later than the fourteenth day of February. Trial balances returned by the Commission for revision due to non-compliance with accounting rules and regulations, shall be resubmitted within three days after the date of receipt by the official concerned.*

(3) *Failure on the part of any official or employee to comply with the provisions of the immediately preceding paragraph shall cause the automatic suspension of the payment of his salary and other emoluments until he shall have complied there with. The violation of these provisions for at least three times shall subject the offender to administrative disciplinary action.*

8.2. Moreover, COA Accounting Circular Letter (ACL) No. 2007-003 dated 19 January 2007, "Guidelines on the Submission of Year-End Financial Statements and other Reports/Schedules for Inclusion in the Annual Financial Report (AFR) for GOCCs and their Subsidiaries for FY 2006 and Onwards," Provides:

"3.1 The Chief Accountant/Head of Accounting Unit shall submit directly to Government Accountancy and Financial Management Information System (GAFMIS) Sector, this Commission, and Audit Team Leader (ATL) /Auditor concerned, the x x x year-end financial statements and reports/schedules in printed and digital copies on or before February 14 of each year: (emphasis supplied)

8.3. Submission of the complete set of financial statements and all the records and documents for audit within the statutory due dates was considerably delayed, contrary to the provisions of P.D. 1445 and COA rules and regulations. Further, digital copies of the same FS and reports were likewise delayed, contrary to COA Accounting Circular Letter No. 2007-003. The first preliminary financial statements were only submitted on May 9, 2018.

8.4. Delays in the submission of the complete set of financial statements and other accounting records and documents precluded the timely completion of audit.

8.5. Management explained that their internal project on the installation of the upgraded accounting system (Microsoft Dynamic Navision version 2016) which should have been completed within 2017 was delayed due to the customization of final tax on the purchasing and sales modules. Because of this, DCI struggled to finish all the requirements for audit within the period set under existing laws, rules and accounting regulations.

8.6. **We recommended that Management:**

- a. **Submit reports and documents for audit within the time prescribed by law and regulations; and**
- b. **Suspend payment of salaries and other emoluments of the officials and employees concerned who continue to violate the provisions of P.D. 1445 and relevant COA rules and regulations.**

9. **Cash advances for local travel amounting to P133,084 were not liquidated within 30 days after return to official station; six employees with previously unliquidated cash advances of P288,700 were granted additional cash advances of P122,500, contrary to Section 89 of P.D. 1445.**

9.1. Section 89 of Presidential Decree (P.D.) No. 1445 prescribes the requisite before a new cash advance is granted to any official or employee, to wit:

"Section 89. Limitations on Cash Advance. – X x x. A cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served. No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made."

9.2. Section 128 of the same P.D. states the penal provision for violation of Section 89 as follows:

Section 128. Penal provision. Any violation of the provisions of Section 67, 68, 89, 106 and 108 of this Code or any regulation issued by the Commission implementing these sections, shall be punished by a fine not exceeding one thousand pesos or by imprisonment not exceeding six (6) months, or both such fine and imprisonment in the discretion of the court.

9.3. In line with Section 89 of PD 1445, COA Circular No. 97-002 dated February 10, 1997 was issued prescribing the guidelines on liquidation of cash advances by the Accountable Officer (AO), Section 5.1 of which states:

"5.1 The AO shall liquidate his cash advance as follows:

5.1.3 Official travel – x x x within thirty (30) days after the return to his permanent official station in the case of local travel, x x x.

Failure of the AO to liquidate his cash advance within the prescribed period shall constitute a valid cause for the withholding of his salary x x x."

9.4. As a policy on cash advances, DCI Management requires that a Cash Advance slip must be properly filled up, indicating the purpose, duly approved by the department head to ensure reasonableness of advances made. In particular, cash advances for official travel shall be supported by an approved Travel Assignment Order (TAO). It is also their policy that liquidations must be made within 48 hours upon arrival at DCI, otherwise, it will be deducted from the salary of concerned personnel. Travelling Expense Reimbursement Forms (TERF) are prepared by the concerned personnel to liquidate travel expenses upon assumption of post after the travel.

9.5. DCI is required to submit quarterly report on cash advances monitoring to the audit team. It has been noted that DCI submitted CY 2017 quarterly reports several days after the due dates set by the audit team, that is, within 5 days after the end of the quarter. Review of cash advances and liquidations were conducted based on these reports.

9.6. Audit of cash advances and liquidations noted the following deficiencies:

- a. For the first quarter of 2017, six employees with previously unliquidated cash advances of P288,700 were granted additional cash advances amounting to P122,500. Of the six, one employee had been granted new cash advances eight times, without his previous cash advances being liquidated first. The other five employees had each been granted new cash advances with unliquidated previous cash advances, once.
- b. Seventeen cash advances amounting to P133,084 were not liquidated within 30 days after return to DCI. Review was conducted on 141 liquidations of cash advances for local travel. Expected dates of return to post per TAO were compared with the TERF dates which disclosed that 17 cash advances for local travel were liquidated beyond the prescribed period of 30 days after return to official station.

9.7. DCI's practice of granting additional cash advances to employees with previously unliquidated cash advances and the liquidation of cash advances beyond 30 days from return to official station is contrary to Section 89 of PD 144. The pertinent provision sets the limitations on the granting of cash advances, that is, a cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served and that no additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.

9.8. **We recommended and Management agreed to:**

- a. **Stop the practice of granting cash advances to employees who have previous unliquidated cash advances;**
- b. **Implement strict monitoring of travel advances liquidation in conformity with Section 89 of PD 1445;**

- c. Withhold salaries of personnel concerned for failure to liquidate cash advances for local travel within 30 days from return to official station; and
- d. Include in the DCI policy and formally document in the Operating Manual the withholding of salaries for failure to liquidate cash advances within 30 days.

Gender and Development

10. DCI did not formulate Gender and Development (GAD) Plan, Programs and Budget, contrary to Section 37A.1 of the Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9710 or the "Magna Carta of Women" and the Philippine Commission on Women (PCW) Memorandum Circular No. 2014-04, and therefore, may be subjected to penalties under Section 41 of the Act.

10.1. Rule VI of the Implementing Rules and Regulations (IRR) of R.A. 9710 provides the institutional mechanisms for the adoption of gender mainstreaming in all agencies and offices of the government. Section 37 A.1 of the IRR specifically provides for the development of 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. X x x
- b. X x x
- c. *At least five percent (5%) of the total agency or LGU budget appropriations shall correspond to activities supporting GAD Plans and Programs. Xxx."*

10.2. The requirement for GAD Plan and Budget was reiterated in PCW Memorandum Circular No. 2014-04 dated September 29, 2014 which provides:

"GOCCs shall prepare their GPBs and GAD ARs in accordance with their budget cycle and submit the same x x to their central office or line department for review, x x x."

10.3. Section 41 of RA 9710 further provides penalties for non-compliance, to wit:

"Upon finding of the CHR that a department, agency, or instrumentality of xxx government-owned and -controlled corporation x x x has violated any provision of this Act and its implementing rules and regulations, the sanctions under, administrative law, civil service, or other appropriate laws shall be recommended to the Civil Service Commission xxx. The person directly responsible for the violation as well as the head of the agency xxx shall be held liable under this Act."

10.4. The DBM and the PCW, encourages GOCCs with no government support to seek the endorsement of the PCW of their GAD Plans. As a subsidiary of the Development Bank of the Philippines, DCI is a GOCC covered by RA 9710, hence, should implement its provisions.

10.5. An AOM was first issued in February 28, 2013 on non-compliance with RA 9710 by the DCI as it did not appropriate budget for GAD Plans and Programs for CY 2012. Management replied that DCI, as a subsidiary of the DBP, did not allocate any budget for GAD and that 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.

10.6. In the succeeding Agency Action Plan and Status of Implementation (AAPSI) of Audit Observations and Recommendations, DCI committed to coordinate with the Human Resources Department of its parent, the DBP, for the inclusion of DCI employees in DBP GAD Plan and Budget (GPB). A letter dated June 27, 2014 was sent by DCI to DBP-HR, requesting that DCI be included in the plans and programs of DBP, and DCI to pay corresponding cost related to it. No documents, however, were submitted to COA to support that DCI was included in the GPB of DBP. Verification disclosed that, DCI was not included in the 2017 GPB of DBP.

10.7. DCI, although classified by the Governance Commission for GOCCs (GCG) as a support unit to its parent DBP, has its own corporate operating budget and organic employees, hence, capacitated to formulate its own GAD Plans and Budget.

10.8. In the absence of a GAD Plan and Budget which is one of the institutional mechanisms for gender mainstreaming, DCI was unable to provide the framework for responding to gender issues and encourage stronger accountability in pursuit of gender equality goals within the organization and may be subjected to penalties under Section 41 of RA 9710.

10.9. We recommended and Management agreed to:

- a. Formulate GAD Plan, Programs and Budget by coordinating with the PCW for trainings on GAD; and
- b. Designate a focal person or unit within the Organization who will be responsible for the setting up of GAD systems and mechanisms, and monitoring of compliance with RA 9710.

Compliance with Tax Laws

11. Withholding taxes on compensation, value-added and other percentage taxes, and expanded creditable income taxes totaling P16.147 million were not remitted within the period prescribed under Section 8 of Revenue Regulation (RR) No. 9-2001, as amended, and Section 2 of RR No. 26-2002, thus, depriving the national government of the immediate use of said fund and exposing the same to risks of misappropriation or unauthorized use.

11.1. Section 8 of the Bureau of Internal Revenue (BIR) RR No. 9-2001, as amended, dated August 3, 2001, provides guidelines for time and place of payment, to wit:

"8.1 Xxx

8.2 (a) For Non-Large Taxpayers who intend to e-pay, electronic payment shall be made through the internet banking facilities of any AAB. This shall constitute an exception to the general rule that the return shall be filed with, and the tax paid, to the AAB within the territorial jurisdiction of the Revenue District Office where the taxpayer is required to register. E-payments shall be made within the day the return was electronically filed, subject to the provisions on installment payment in the Tax Code of 1997, following the "pay-as-you-file" principle.

(b) For Non-Large Taxpayers who intend to make manual payment, the same may be made only with the AABs within the territorial jurisdiction of the Revenue District Office where the taxpayer is required to register. In places where there is no AAB, the payment shall be made with the Revenue District Officer, Collection Agent, or duly authorized Treasurer of the city or municipality under the jurisdiction of the Revenue District Office in which the Non-Large Taxpayer is required to register. Manual payments shall be made within banking hours of the day when the return was electronically filed, subject to the provisions on installment payment in the Tax Code of 1997, following the "pay-as-you-file" principle.

11.2. Relative thereto, Section 2 of BIR RR No. 26-2002 dated December 5, 2002 states that:

"Section 7. TIME OF FILING OF RETURN.-For purposes of filing returns under the EFPS, the taxpayers classified under the following business industries shall be required to file the Monthly Withholding Tax Returns, except withholding of Value-Added Tax; Monthly VAT Declarations; and Monthly Percentage Tax Returns, on or before the dates prescribed and presented herein-below:

BUSINESS INDUSTRY	MONTHLY WITHHOLDING TAX RETURNS EXCEPT WITHHOLDING OF VALUE ADDED	MONTHLY VAT DECLARATIONS AND MONTHLY PERCENTAGE TAX RETURNS
Xxx		
Xxx		
Group C Retail Sale Whole Sale Trade and Commission Trade Sale, Maintenance, Repair of Motor Vehicle, Sale of Automotive Fuel Collection, Purification and Distribution of Water <u>Computer and Related Activities</u>	Thirteen (13) days following end of the month.	Twenty three (23) days following end of the month.

BUSINESS INDUSTRY	MONTHLY WITHHOLDING TAX RETURNS EXCEPT WITHHOLDING OF VALUE ADDED	MONTHLY VAT DECLARATIONS AND MONTHLY PERCENTAGE TAX RETURNS
<i>Real Estate Activities</i>		
Xxx		
Xxx		

Xxx

For the electronic payment of tax for the returns required to be filed earlier under the staggered filing system, the taxpayer upon e-filing shall, still using the facilities of Electronic Filing and Payment System (EFPS), likewise give instruction to the Authorized Agent Bank to debit its account for the amount of tax on or before the due date for payment thereof as prescribed under the prevailing/applicable laws/regulations.

For purposes of these regulations, the industry of the taxpayer is its primary line of business or the primary purpose of its existence as stated in the Articles of Incorporation, for corporate taxpayers."

11.3. DCI is enrolled in the Electronic Filing and Payment System (EFPS) maintained by BIR for electronic filing of tax returns, including attachments, if any, and paying taxes due thereon, specifically through the internet. Electronic returns produced by EFPS include, but not limited to, the Monthly Remittance Return of Income Taxes Withheld on Compensation – 1601C, Monthly Remittance Return of Creditable Income Taxes Withheld (Expanded) – 1601E, and Monthly Remittance Return of Value-Added Tax and Other Percentage Taxes Withheld – 1600.

11.4. Review of DCI's filing and payment for 1600, 1601C and 1601E electronic returns disclosed that in several instances, payments were not made within the day the returns were electronically filed, contrary to Section 2 of Revenue Regulation No. 26-2002. The following observations were also noted:

- b) DCI filing date of forms 1600 for CY 2017 and 1601C for the months of November and December cannot be determined as copies of monthly remittance returns for the corresponding tax periods were not furnished to the audit team.
- c) Of the 36 monthly 1601C and 1601E remittance returns filed, 14 were delayed from one to three days. Similarly, payments of 27 monthly remittances for 1600, 1601C, and 1601E on various tax periods were delayed from two to 177 days.
- d) Payment transactions for monthly remittance returns of 1600, 1601C and 1601E for the second semester of CY 2017 were noted "Pending Online Confirmation." Remarks from the EFPS website indicated that details of payment were redirected to the corresponding bank and that DCI should verify with their Authorized Agent Bank (AAB) the status of payment.

Management commented that financial difficulty was encountered during the period that resulted to deferment of payments.

11.5. Failure to remit withholding taxes on compensation, value-added and other percentage taxes, and expanded creditable income taxes totaling P16,147,108.80 within the day the returns were electronically filed, deprived the national government of the immediate use of said fund and exposed the same to risks of misappropriation or unauthorized use.

11.6. We recommended that Management:

- a. Remit the income taxes withheld on compensation, expanded creditable income taxes withheld, and value-added and other percentage taxes withheld within the prescribed period; and
- b. Strictly monitor compliance with EFPS filing and payment in accordance with RR No. 9-2001 and 26-2002 and its applicable rules and regulations.

SSS Contributions and Remittances

12. For CY 2017, DCI complied with Republic Act No. 8282 on the collection and remittance of contributions to SSS as follows:

- a. Mandatory monthly contribution of covered employees and employer in accordance with Section 18; and
- b. Remittance of employee's and employer's contributions and employee's compensation premium within the due date pursuant to Section 19.

Philhealth and Pag-ibig Premiums

13. DCI complied with Title III Rule III, Section 18 of the Implementing Rules and Regulations of R.A. No. 7875 as amended in the payment of national health insurance premium contributions to the Philhealth.

13.1. DCI is also compliant with Rule VII, Section 3 of the Implementing Rules and Regulations of R.A. 9679 in the collection and remittance of contributions to the Pag-ibig Fund.

C. PERFORMANCE AUDIT

14. DCI did not attain its targets for 2017 and faces the risk of not achieving its primary purpose of providing Information and Technology services to both government and non-government institutions, contrary to the Performance Agreement with GCG.

14.1. The Amended Articles of Incorporation of DCI states its primary purpose, to wit:

"To engage in Information Technology (IT) facilities management, systems application development, systems integration, providing IT solutions, contact centers operation, business processes outsource, consultancy services and other IT related services for government and non-government institutions."

14.2. Forming part of the Performance Agreement covering CY 2017 by and between the DCI and the Governance Commission for GOCCs (GCG), is DCI's vision that, by 2020, it shall be a world class Information and Communications Technology partner of the government.

14.3. The targets and actual accomplishments on the strategic objectives (SO) under each strategic measure (SM) as reported, for the period ending December 31, 2017 are as follows:

	Objectives/Measures	Target	Actual (Per DCI)	Variance
SO1	To deliver IT Services			
SM1	Number of new projects	9 signed MOA/NOA	6 signed MOA	(3)
SM2	Client Satisfaction Rating	90% of all respondents graded DCI service as Excellent and Highly Satisfactory	90% of all respondents graded DCI service as Excellent and Highly Satisfactory	Not validated
SO2	To generate revenues			
SM3	Value of service	P247,828,428	151,444,207	(96,384,221)
SM4	Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	P30.73 million	4.88 million	(25.85 million)
SO3	Adapt ISO requirements			
SM5	ISO Certification 9001:2015	Readiness for ISO Certification 9001:2015	90%	Not validated
SO4	To provide managed services			
SM6	Per cent milestone Achievement Level (Project)	100% implementation of the Board-approved project	0%	(100%)
SO5	To deliver new product/services/ applications and			

	Objectives/Measures	Target	Actual (Per DCI)	Variance
	solutions			
SM7	No. of IT solutions approved by the Board	2 (Phase 2 of DMS Indexing Part and e-claims) use EPAMS	1 (e-claims)	1
SO6	To deliver employee engagement program			
SM8	Competency Program	Improvement from competency baseline of 50% of the personnel under each level: (1) Management and (2) Technical levels	0	(100%)
SM9	Employee Climate Survey	Establish Baseline	0	(100%)

14.4. Results of validation of DCI's performance are presented below:

a. Number of new projects

DCI had a total of 6 signed Service/Memoranda of Agreement (MOA) with government agencies for CY 2017 to wit:

	Client	Project/Service	Total Project Price	Revenues Generated for CY 2017
1	Bangko Sentral ng Pilipinas (BSP)	Human Resource Information System	12,320,000.00	1,650,000.00
2	Bureau of Treasury (BTr)	Consulting services to enhance IT infrastructure	16,763,000.00	5,516,517.86
3	Department of Information and Communications Technology (DICT)	Cybersecurity Solution for Trade Net	29,869,494.72	355,539.69
4	Zamboanga del Norte Medical Hospital, by the Province of Zaboanga del Norte	Hospital Information System	Not indicated	12,195,950.76
5	Philippine Regulation Commission (PRC)	Electronic Payment and Collection System (EPCS)	Not indicated	6,944,598.21
6	Philippine Economic Zone Authority (PEZA)	Payment Gateway Services	Not indicated	0.00

The abovementioned signed MOA, however, is only 67% of the 9 new projects aimed by DCI for CY 2017. The additional new projects brought the total non-DBP projects to 9 as of December 31, 2017.

b. Client Satisfaction Rating

DCI has claimed 90% of all respondents graded DCI service as Excellent and Highly Satisfactory. Said results, however, could not be validated as there were no supporting documents submitted.

c. Value of service – gross revenues

For CY 2017, DCI intended to continue supporting DBP's IT requirements and its new initiatives. DCI planned to maintain the number of personnel assigned to DBP and increase revenue by offering services to potential customers outside DBP, primarily the government sector.

DBP has been DCI's major client and main source of income under a Staff Supplementation Agreement whereby DCI has provided IT consultants and computer programmers to DBP for the latter's IT requirements. The personnel provided by DCI to DBP were mostly sub-contracted by DCI from three private IT companies. During the year, DBP has decided to stop procuring from DCI IT personnel which DCI has outsourced from the three IT companies. These brought down the number of IT staff provided by DCI to DBP to 55 as of December 31, 2017, from 176 as of December 31, 2016. Consequently, DCI has terminated its Service Agreements with the three IT companies.

For CY 2017, projections and actual revenues from DBP and non-DBP clients are as follows:

Client	In millions		
	Projections	Actual	Variance
DBP	124.39	100.70	(23.69)
Non-DBP:			-
Land Transportation Office (LTO)	15.00	-	(15.00)
Zamboanga del Norte Medical Hospital (ZNMC)	15.80	12.20	(3.60)
Jose B. Lingad Memorial Regional Hospital (JBLMRH)	16.80	22.00	5.20
Batangas Province	6.70	-	(6.70)
Pangasinan Province	5.58	-	(5.58)
Philippine Export Zone Authority (PEZA)	8.00	-	(8.00)
Bangko Sentral ng Pilipinas (BSP)	11.00	1.65	(9.35)
Pag-ibig	1.34	-	(1.34)
Philippine National Police (PNP)	16.67	0.19	(16.48)
Philippine Regulation Commission (PRC)	8.33	6.94	(1.39)
Securities Exchange Commission (SEC)	2.39	-	(2.39)
National Bureau of Investigation (NBI)	8.33		(8.33)
Bureau of Internal Revenue (BIR)	7.50		(7.50)
Bureau of Treasury (BTr)		5.52	5.52
Cooperative Development Authority (CDA)	-	1.84	1.84
Department of Information and Communication Technology (DICT)	-	0.36	0.36
TOTAL	247.83	151.40	(96.43)

DCI reported gross revenues of P151,444,207 for CY 2017. This consists of service income of P100,705,720 from its major client, the DBP, P50,692,868 from non-DBP clients and P45,619 other income representing cost of bid documents during its Joint Venture Selection Process and income from processing of individual insurance of employees previously entered into.

The actual gross revenues reported, however, fell short by P96,384,221 or 38.89 per cent of the targeted P 247,828,428. Management explained that this is primarily due to the decrease in IT workforce provided to DBP under a Staff Supplementation Agreement.

Of the gross revenues of P151,444,207, a total of P29,974,101 are without Journal Vouchers and required supporting documents to show proof that said amount was actually earned in CY 2017.

d. Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)

With gross revenues below the targeted amount, EBITDA consequently fell below target at P4,878,784 as of December 31, 2017. This is only 15.88 per cent of the targeted EBITDA of P30.73 million.

e. ISO Certification 9001:2015

DCI asserted 90 per cent readiness for ISO Certification 9001:2015. No documents, however, were submitted to support such claim. Organizations use this standard to demonstrate the ability to consistently provide products and services that meet customer and regulatory requirements.

f. Per cent milestone Achievement Level (Project)

DCI targeted 100 per cent implementation of Board-approved projects, but none was 100 per cent implemented in CY 2017. As disclosed in the Notes to FS, one project was completed in CY 2016 while the rest are on-going projects, hence, no project/s were completed in CY 2017.

g. No. of IT solutions approved by the Board

DCI reported that 1 of 2 IT solutions were approved by the Board. The Board Resolution evidencing such approval was not furnished to the auditor, hence, not validated. Still, the objective to deliver at least 2 IT solutions was not achieved.

h. Competency Program and employee climate survey

DCI reported that it has not attained its objectives to deliver employee engagement program, thus, no improvements were made on both competency program and employee climate survey.

14.5. As classified by the GCG, DCI is a GOCC considered a support unit to its parent, the DBP. DCI's dependency on DBP as its major client, and with nine other government sector clients, is inconsistent with its primary purpose, as indicated in the Amended

Articles of Incorporation, of providing IT products and services not only to the government, but to the private sectors as well.

14.6. Moreover, the adverse development during the year in the Staff Supplementation Agreement between DBP and DCI, simultaneous with the failure of DCI to obtain the planned number of new projects, has greatly affected the attainment of DCI's objective for CY 2017 to generate desired revenues and EBITDA.

14.7. Further, DCI has not yet achieved for its organization the required quality standards and, for its personnel, the required improvement in competencies, considering that products, services and manpower are significant factors to DCI, claiming to be the only GOCC that has specialists skilled in IT composed of a team that is dedicated, dynamic, innovative professionals abreast with the fast changing technology.

14.8. These prevailing conditions have a strong impact on DCI's attainment of its primary purpose to engage in IT facilities management, systems application development, systems integration, providing IT solutions, contact centers operation, business processes outsource, consultancy services and other IT related services for government and non-government institutions. It may also have a negative effect on DCI's vision that, by 2020, it shall be a world class Information and Communications Technology partner of the government.

14.9. We recommended that Management:

- a. Prepare an action plan and marketing strategy to offer their services to clients other than government entities for new projects;
- b. Present the action plan and marketing strategy to the Board for approval and support;
- c. Adopt a more robust marketing strategy towards attracting clients other than government entities; and
- d. Strengthen DCI's personnel complement with human resources having technical competencies in the field of information technology comparable with private competitors.

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

The audit disallowances as at December 31, 2017 amounted to P12.139 million. All of the disallowances were appealed to COA in accordance with the provisions of Chapter IV, 2009 Revised Rules of Procedures of the Commission on Decisions and Appeals.

Notices of Disallowance (ND) issued during the year are as follows:

ND Date	ND No.	Particulars	Amount
3/20/17	ND No. 2017-02 (16)	Payment for health care insurance from private companies	793,252.32
3/20/17	ND No. 2017-03 (16)	Payment for additional benefits: grocery allowance, anniversary bonus, hospitalization, optical & dental	1,892,164.67
10/10/17	ND No. 2017-03 (17)	Payment for health care insurance from private companies	863,901.20
Total			3,549,318.19

There were no suspensions and charges as at year end.

PART III

**STATUS OF IMPLEMENTATION OF PRIOR
YEARS' AUDIT RECOMMENDATIONS**

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the four audit recommendations embodied in the CY 2016 AAR, three were reiterated in Part II of the Report and one was not implemented, as follows:

Observations and Recommendations	Actions Taken
<p>Additional retirement benefits and group life insurance premiums of DCI officers and employees amounting to P2.220 million and P0.151 million, respectively, were not included in the DCI total compensation package which was posted in its website, contrary to Section 25 (h) of RA 10149, thus, the Corporation is non-compliant with the requirements on good Corporate Governance.</p>	<p>Not implemented.</p>
<p>Disclose the benefits under the Retirement Gratuity Plan and the group life insurance in its Website to comply with the disclosure requirement of RA 10149.</p>	