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

ANNUAL AUDIT REPORT

on the

DBP DATA CENTER, INC.

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

For the years ended December 31, 2016 and 2015

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. Mr Nilo S. Cruz. DBP Senior Vice President and DCI Director Marietta M. Fondevilla had been designated as Officer-in-Charge until a new President and Chief Executive Officer is appointed.

As of December 31, 2016, DCI had a total manpower of 201 including 139 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, 2016 to enable us to express an opinion on the financial statements for the years ended December 31, 2016 and 2015 in accordance with the Philippine Public Sector Standards on Auditing. 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. Comparative Financial Position

	2016	2015	Increase/ (Decrease)
Assets	150,801,483	92,339,492	58,461,991
Liabilities	99,210,478	50,111,606	49,098,872
Equity	51,591,005	42,227,886	9,363,119

II. Comparative Results of Operations

	2016	2015	Increase/ (Decrease)
Income	227,310,564	106,634,015	120,676,549
Expenses	214,947,445	103,948,471	110,998,974
Comprehensive Income	12,363,119	2,685,544	9,677,575

III. Comparative Budget and Actual Expenditures

	Budget		Utilization	
	2016	2015	2016	2015
Personnel Services	190,602,306	134,214,218	198,988,135	98,815,802
Maintenance and Other Operating Expenses	7,260,817	6,486,118	10,678,445	4,230,772
Capital Expenditures	7,761,133	224,794	3,965,444	212,652
Total	**205,624,256**	**140,925,130**	**213,632,024**	**103,259,226**

AUDITOR'S OPINION

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements for the years ended December 31, 2016 and 2015 because Accounts Receivable – Non-Trade includes claim from the Bureau of Internal Revenue (BIR) for the overpayment of Value Added Tax (VAT) amounting to P13.133 million, the right to claim of which has already prescribed yet no allowance for bad debts was provided contrary to Philippine Accounting Standards (PAS) 39, resulting in the overstatement of both Receivables and Net Income for 2016 by the same amount. Also, the recognition, measurement and disclosure of Retirement Gratuity Plan were not in accordance with PAS 19 thereby casting doubt on the valuation of the pension payable and past service pension cost payable amounting to P11.361 million and P11.114 million, respectively, as of the year ended December 31, 2016.

For the above observations, we recommended that Management provide an allowance for impairment and credit losses or derecognize the Accounts Receivable-Non-Trade from BIR presented in the financial statements and adhere to the provisions of PAS 19 on the recognition, measurement and disclosure of the employee retirement benefits.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. Properties with Net Book Value of P4.237 million as of December 31, 2016 were not insured with the Government Service Insurance System contrary to Section 5 of Republic Act 656 and Section 1 of Administrative Order No. 141, thus, denying the Corporation adequate and reliable protection against any damage to, or loss of properties.

1.1 We recommended that Management insure its property with the GSIS.

2. 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.

2.1 We recommended that Management 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.

SUMMARY OF AUDIT DISALLOWANCES

The audit disallowances as at December 31, 2016 amounted to P8.590 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.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 17 audit recommendations embodied in the CY 2015 and prior year's Annual Audit Reports, 15 were implemented and two were not implemented. The unimplemented audit recommendations are reiterated in Part II of the report.

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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

We have audited the accompanying financial statements of **DBP Data Center, Inc.** (a wholly-owned subsidiary of Development Bank of the Philippines) which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Bases for Qualified Opinion

The Corporation's Receivables include non-trade receivables amounting to P13.133 million representing claim from the Bureau of Internal Revenue for overpayment of Value Added Tax (VAT). 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, the right to claim has already prescribed. As shown in Note 5, the corresponding allowance for probable losses amounting to P13.133 million, as a result of an assessment on impairment of assets, has not been provided as required under Philippine Accounting Standards (PAS) 39. Had such allowance been provided for, the Receivables and Net Income for 2016 would have been both decreased by P13.133 million.

Also, the Retirement Gratuity Plan, for which Pension Payable and Past Service Pension Cost Payable totaling P22.475 million and P20.110 million were recorded as at December 31, 2016 and 2015 respectively was recognized and measured at an amount equivalent to the value of trust fund held with the DBP Trust Banking Group. Said plan was also measured based on the amount of monthly pension expense and corresponding liability equivalent to 1/12 of the monthly salary of all active regular employees. This is not in accordance with the accounting for defined benefit plans prescribed under PAS 19. The valuation of the Retirement Gratuity Plan requires an actuarial study in order to be compliant with PAS 19, however said study was not pushed through in 2016. Thus, the valuation of the Pension Payable and Past Service Pension Cost Payable accounts amounting to P11.361 million and P11.114 million in 2016, and P11.215 million and P8.895 million in 2015, respectively was doubtful.

Opinion

In our opinion, except for the effects of the matters described in the Bases for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of DBP Data Center, Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

ATTY. RESURRECCION C. QUIETA
Supervising Auditor

May 5, 2017

DCI

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, 2016 and December 31, 2015*, 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 Philippine Standards on Auditing, and in their report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

MR. CECILIO B. LORENZO
Chairman of the Board

MR. NILO S. CRUZ
President & Chief Executive Officer

MR. HILARIO C. BAYSA
Admin & Finance Department Head

Signed this 18th day of April 2017.

SUBSCRIBED AND SWORN TO BEFORE ME THIS APR 25 2017
AT MAKATI CITY AFFIANT EXHIBITED TO ME HIS/HER
______ NO. ______ ISSUED ______ AT ______

ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPT. NO. M-88
UNTIL DEC. 31, 2018
ROLL OF ATTY. NO. 48348
MCLE COMPLIANCE NO. IV-0016333-4/10/13
I.B.P O.R No. 706762, LIFETIME MEMBER JAN 29,2007
PTR No. 590-90-82 JAN.3, 2017
EXECUTIVE BLDG. CENTER
MAKATI AVE. COR., JUPITER ST. MAKATI CITY

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DBP DATA CENTER, INC.
(A Wholly-owned Subsidiary of the Development Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015
(In Philippine Peso)

	Note	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	4	29,847,738	18,198,278
Receivables - net	5	102,441,523	60,400,123
Prepaid expenses	6	1,172,153	994,932
		133,461,414	**79,593,333**
Non-current assets			
Property and equipment - net	7	4,307,081	760,174
Investment in trust - retirement fund	8	11,361,421	11,214,896
Deferred tax asset		223,584	223,584
Other assets-net	9	1,447,983	547,505
		17,340,069	**12,746,159**
TOTAL ASSETS		**150,801,483**	**92,339,492**
LIABILITIES AND EQUITY			
Current liabilites			
Other payables	10	13,845,302	12,932,497
Dividend payable		1,500,000	0
Accrued expenses	11	56,780,331	12,835,750
		72,125,633	**25,768,247**
Non-current liabilities			
Vacation/Sick leaves payable		4,608,699	4,233,394
Pension Payable	8	11,361,421	11,214,896
Past service pension cost payable	12	11,114,725	8,895,069
		27,084,845	**24,343,359**
		99,210,478	**50,111,606**
Equity			
Capital Stock			
Authorized - 500,000 shares, P100 par value			
Issued and outstanding - 202,800 shares	13	20,280,000	20,280,000
Retained earnings		31,311,005	21,947,886
		51,591,005	**42,227,886**
TOTAL LIABILITIES & EQUITY		**150,801,483**	**92,339,492**

The Notes on pages 8 to 23 forms part of this financial statements.

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, 2016 and 2015
(In Philippine Peso)

	Note	2016	2015
REVENUE			
Outsourcing services	14	227,157,088	106,467,405
Others		111,209	107,188
		227,268,297	**106,574,593**
EXPENSES			
Service fees	15	150,049,107	52,080,618
Salaries, allowances and benefits	16	48,939,028	46,735,184
Rent and utilities		3,871,512	884,843
Excess input VAT (RR 04-2007)		2,011,000	0
Transportation & travel		1,420,099	178,381
Taxes & licenses	19	797,494	674,328
Professional fees		696,642	463,274
Repairs & maintenance (includes CUSA)		541,905	1,314,305
Depreciation and amortization		437,044	215,770
Miscellaneous		324,423	143,556
Representation		324,096	222,318
Office supplies		254,730	133,998
		209,667,080	**103,046,575**
INCOME BEFORE INTEREST AND TAXES		**17,601,217**	**3,528,018**
Add/(Deduct):			
Interest income		42,267	59,422
INCOME BEFORE TAXES		**17,643,484**	**3,587,440**
Provision for income tax		5,280,365	901,896
TOTAL COMPREHENSIVE INCOME		**12,363,119**	**2,685,544**

The Notes on pages 8 to 23 forms part of this financial statements.

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, 2016 and 2015
(In Philippine Peso)

	Note	Common Stock (Note 13) Share	Amount	Retained Earnings	Total
Balance January 1, 2015		202,800	20,280,000	22,262,342	42,542,342
Total comprehensive income for 2015				2,685,544	2,685,544
Declaration of Cash Dividend				(3,000,000)	(3,000,000)
Balance, December 31, 2015		**202,800**	**20,280,000**	**21,947,886**	**42,227,886**
Net Income (Loss) for 2016				12,363,119	12,363,470
Declaration of Cash Dividend				(3,000,000)	(3,000,000)
Balance, December 31, 2016		**202,800**	**20,280,000**	**31,311,005**	**51,591,356**

The Notes on pages 8 to 23 forms part of this financial statements.

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, 2016 and 2015
(In Philippine Peso)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		199,302,657	103,356,786
Other income received		111,209	444
Cash payments to suppliers		(13,882,646)	(17,846,239)
Cash paid for operating expenses		(169,027,744)	(87,037,480)
Interest income received		42,267	51,617
Cash paid for Other assets		0	(303,534)
Net cash generated from/(used in) operations		**16,545,743**	**(1,778,406)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of company car		0	46,000
Purchase of computer equipment and office machine & equipment		(3,396,283)	0
Net cash (used in)/provided by investing activities		**(3,396,283)**	**46,000**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of cash dividend		(1,500,000)	(3,000,000)
Net cash used in financing activities		**(1,500,000)**	**(3,000,000)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**11,649,460**	**(4,732,406)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**18,198,278**	**22,930,684**
CASH AND CASH EQUIVALENTS, END OF YEAR	4	**29,847,738**	**18,198,278**

The Notes on pages 8 to 23 forms part of this financial statements.

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, 2016, DCI had a total manpower of 201 including 139 contractual personnel.

The DCI Board approved the issuance of DCI's financial statements for the year ended December 31, 2016 on March 31, 2017.

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 Flows 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 that its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Standard requires the entity to recognize an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

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

Functional and presentation currency

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

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 2016 and 2015:

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
Due from other banks	29,837,738	0	0	0	0	29,837,738
Receivables	88,431,934	0	0	14,009,439	0	102,441,373
Prepaid expenses	1,172,154	0	0	0	0	1,172,154
Property plant & equipment	0	0	0	4,307,081	0	4,307,081
Investment in Trust – Retirement Fund	0	0	0	11,361,421	0	11,361,421
Deferred Asset	0	0	0	223,584	0	223,584
Other assets	0	0	0	1,447,983	0	1,447,983
	119,451,826	**0**	**0**	**31,349,508**	**0**	**150,801,334**
Liabilities:						
Current liabilities	72,125,133	0	0	0	0	72,125,133
Non-current Liabilities	0	0	0	27,084,845	0	27,084,845
	72,125,133	**0**	**0**	**27,084,845**	**0**	**99,209,978**
Asset-liability gap	**47,326,693**	**0**	**0**	**4,264,663**	**0**	**51,591,356**

2015	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
Due from other banks	18,188,278	0	0	0	0	18,188,278
Receivables	37,949,192	0	0	22,450,931	0	60,400,123
Prepaid expenses	994,932	0	0	0	0	994,932
Property plant & equipment	0	0	0	760,174	0	760,174
Investment in Trust – Retirement Fund	0	0	0	11,214,896	0	11,214,896

2015						
	Up to 3 mos.	Over 3-6 mos.	Over 6 mos-1 yr	Over 1-5 yrs	Over 5 yrs	Total
Deferred Asset	0	0	0	223,584	0	223,584
Other assets	0	0	0	547,505	0	547,505
	57,142,402	**0**	**0**	**35,197,090**	**0**	**92,339,492**
Liabilities:						
Current liabilities	25,768,247					25,768,247
Non-current Liabilities				24,343,359		24,343,359
	25,768,247			**24,343,359**		**50,111,606**
Asset-liability gap	**31,374,155**	**0**	**0**	**10,853,731**	**0**	**42,227,886**

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 (2016), 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.

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 or may have legal or regulatory implications that may lead to financial loss. The Corporation cannot expect to eliminate all operational risks, but though 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, particularly the ones related to employee management.

4. CASH AND CASH EQUIVALENTS

Included in this account are the following:

	2016	2015
Cash in banks	27,249,756	12,164,123
Investments/placements	2,587,982	6,024,155
Petty cash fund	10,000	10,000
	29,847,738	**18,198,278**

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 months or less from date of acquisition.

5. RECEIVABLES

This account consists of the following:

	2016	2015
Trade	86,660,540	41,721,401
Non-trade	16,526,264	19,424,003
	103,186,804	61,145,404
Allowance for bad debts	(745,281)	(745,281)
	102,441,523	**60,400,123**

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. PREPAID EXPENSES

This account consists of the following:

	2016	2015
Insurance	563,848	466,981
Unused supplies	122,322	134,131
Rent	51,985	51,986
Taxes & Licenses	2,033	2,033
Interest	38,036	0
Others	393,929	339,801
	1,172,153	**994,932**

7. PROPERTY AND EQUIPMENT

This account consists of the following:

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
Additions	705,411	277,993	0	675,410	1,168,684	1,137,946	3,965,444
Adjustment (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	287,401	927,283	0	2,591,823	603,000	7,748,743
Depreciation/Amort.	78,810	14,792	129,472	84,426	35,378	0	342,878
Adjustment (Overdepreciation/ 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**

2015	Computer Equipment	Office Machine and Equipment	Other Property & Equipment	Leasehold Improvement	Furniture and Fixtures	Transportation Equipment	Total
Cost							
Beginning Balance	3,722,858	337,132	1,097,123	0	2,879,803	743,000	8,779,916
Additions	0	0	0	0	0	0	0
Adjustment (Disposal/reclassification)	0	0	0	0	(198,000)	(73,000)	(271,000)
Ending Balance	**3,722,858**	**337,132**	**1,097,123**	**0**	**2,681,803**	**670,000**	**8,508,916**
Accumulated depreciation							
Beginning Balance	*3,295,695*	*280,651*	*913,624*	*0*	*2,789,822*	*668,700*	*7,948,492*
Depreciation/Amort.	108,884	6,750	94,693	0	0	0	210,327
Adjustment (Overdepreciation/ reclassification)	(65,343)	0	(81,034)	0	(198,000)	(65,700)	(410,077)
Ending Balance	**3,339,236**	**287,401**	**927,283**	**0**	**2,591,822**	**603,000**	**7,748,742**
Net Book Value	**383,622**	**49,731**	**169,840**	**0**	**89,981**	**67,000**	**760,174**

8. INVESTMENT IN TRUST – RETIREMENT FUND

This pertains to the DCI Placement to DBP Trust for the payment of retirement of qualified employees. 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.

Every month, the Corporation provides a pension expense and the corresponding liability equivalent to 1/12 of the monthly salary of all active regular employees. Eventually, the allocated liability is being transferred to DCI Retirement Fund being administered by DBP Trust Department and presented in the book as Pension Payable of the same value of P11.361 million.

9. OTHER ASSETS

The details of this account are as follows:

	2016	2015
Intangibles (computer software)	3,866,944	3,717,701
Rental deposit	812,732	0
Miscellaneous asset	37,220	37,220
Refundable deposit	47,737	47,736
	4,764,633	3,802,657
Less: Accumulated amortization (intangibles)	3,316,650	3,255,152
	1,447,983	**547,505**

Intangibles are software costs accounted for as follows:

	2016	2015
Balance at beginning of year	462,549	387,917
Additions/Adjustment	181,910	226,452
Amortization	(94,165)	(151,820)
Balance at end of year	**550,294**	**462,549**

10. OTHER PAYABLES

The details of this account are as follows:

	2016	2015
Suppliers/creditors	5,411,748	8,104,168
Bureau of Internal Revenue	7,650,472	3,982,630
Employee benefit fund	382,186	382,186
Government remittances	228,820	291,437
Others	172,076	172,076
	13,845,302	**12,932,497**

This account includes the Corporation's various short-term liabilities to suppliers, business partners and government agencies, such as Bureau of Internal Revenue (withholding taxes, income taxes, value added taxes), SSS (contributions and loans), Home Development Mutual Fund (contributions and loans) and others. The Employee benefit fund pertains to share of DCI for employees which remained unreleased. It is the intention of the Management to re-activate the said Fund in 2017.

11. DIVIDENDS PAYABLE

The Corporation declared cash dividend amounting to P3.00 million per Board Resolution No. 003 dated March 11, 2016 for 2015 Net Income after Tax of P2.68 million. The cash dividend of P3.00 million was distributed as follows:

a. P1.50 million for the National Government thru the Bureau of Treasury; and
b. P1.50 million for DBP being the parent company.

12. ACCRUED EXPENSES

This account includes the Corporation's accrual of liabilities on various services received from service providers (Software Laboratories, IT Managers, Apollo and RCG), utilities and employees' incentives.

The details of this account are as follows:

	2016	2015
Service Providers	53,895,366	11,070,810
Employee incentives	1,620,400	700,000
Utilities	700,622	448,997
Others	563,943	615,943
	56,780,331	**12,835,750**

13. VACATION/SICK LEAVES 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.

14. PAST SERVICE PENSION COST PAYABLE

Every month, the Corporation provides corresponding liability equivalent to 1/12 of the monthly salary of all active regular employees. Eventually, the allocated liability is being transferred to DCI Retirement Fund administered by DBP Trust Department and presented in the book as Pension Payable.

15. CAPITAL STOCK

Capital stock represents the nominal value of common shares issued and outstanding. The Authorized Capital Stock amounts to P50 million representing 500,000 shares at P100.00 par value. Capital Stock paid, issued and outstanding as of December 31, 2016 amounts to P20.28 million or 202,800 shares.

In 2009, an additional capital stock amounting to P15 million was subscribed by the Development Bank of the Philippines, increasing the subscribed capital stock from P5.280 million to P20.280 million. On April 13, 2009, DCI's application for increase in capitalization was approved and the corresponding certificate was released accordingly.

16. OUTSOURCING SERVICES

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:

	2016	2015
DBP	151,443,966	102,880,738
Non-DBP	75,713,122	3,586,667
Total	**227,157,088**	**106,467,405**

DBP projects includes microfilm digitization project amounting to P12 million and P3 million from card acquiring.

17. SERVICE FEES

Service Fees pertains to the cost incurred in connection with the engagement of services of professional person or group of persons including juridical person. They are primarily project-based. The increase in the cost of this account is due to the need to increase professional services requirements in the projects such as DBP staff supplementation.

18. SALARIES, ALLOWANCES AND BENEFITS EXPENSES

	2016	2015
Salaries & Wages	27,570,154	26,081,931
Performance Incentive/Mid Year	4,825,904	4,112,692
Overtime Pay	2,479,406	2,960,366
Pension Expense	2,219,656	2,171,579
13Th Month Pay	2,216,372	2,159,151
Employees' Rice	2,000,700	1,903,500
Vacation/Sick Leave	1,855,722	2,059,512
Grocery Allowance	1,620,000	1,650,000
Hospitalization Benefits & Group Insurance	1,102,906	613,826
Employer's SSS, Philhealth & EC Contributions	1,088,808	1,155,578
Local Training	846,079	264,506
Other Personnel Benefits	540,520	685,242
Uniform/Clothing Allowance	237,267	201,526
Anniversary Bonus	162,000	165,000
Employer's Pag-ibig Contribution	71,700	72,100
Optical and Dental Benefits	53,708	57,250
Transportation Allowance	48,126	40,925
Loyalty Cash	0	44,000
Gift Certificate	0	336,500
	48,939,028	**46,735,184**

19. 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:

	2016	2015
Net earnings/loss	12,363,470	2,685,544
Divided by the number of outstanding common shares (Note 13)	202,800	202,800
Earnings/loss per share	**60.96**	**13.24**

20. 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	2016	2015
Receivables – Professional Service Agreement	76,436,791	37,949,191
Cash in Bank – Current Account	24,791,974	10,234,945
Short-term investment	2,587,982	6,024,155
Investment in Trust – Retirement Fund	11,361,421	11,214,896
	115,178,168	**65,423,187**

21. 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 2015.

A. DBP Data Center Inc. is a VAT-registered company with VAT output tax declaration of P27.81 million based on the amount reflected in the Sales Account of P231.72 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	6,849,822
Services lodged under other accounts	8,556,918
	15,406,740

C. Other Taxes & Licenses

Local - Mayor's/Business Permit	786,494
Community Tax Certificate	10,500
National - BIR Annual Registration	500
	797,494

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

Tax on compensation and benefits	7,162,641
Creditable withholding taxes (at source)	2,630,583
Final withholding taxes (VAT)	5,686,996
	15,480,220

The above taxes were paid 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.

22. HIGHLIGHTS OF OPERATION

DBP Data Center, Inc. (DCI) has been continuously supporting DBP's Information Technology infrastructure for the past 34 years. In 2016, 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 for 2014-2016, 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 2016.

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, 2016, DCI has a total of one hundred and seventy-six (176) strong workforce working closely with the Bank's IT requirements.

2. Microfilm Digitization for DBP Office of the Corporate Secretary (DBP OCS) – This is a six-month engagement to convert OCS' microfilm collection into digital form. The project started on June 6, 2016. OCS has a total of 1,215 microfilm rolls containing 2500 images per roll that will be converted to PDF form. This was completed December 31, 2016.

3. Industrial Guarantee Loan Fund (IGLF) Website – This is development of a website for Industrial Guarantee Loan Fund (IGLF), a first for the 62-year-old group to have a source of information that is publicly available. It will also serve as a way for the members to apply for a loan online. The website was turned over to IGLF.

b. Non-DBP Opportunities

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

1. Philippine Port Authority (PPA) – This is a consultancy project (six months contract) where DCI provides Business Process Review (BPR) to maximize the use of their current system. Ports visitation was done in early part of 2016.

2. Zamboanga Del Norte Medical Center – This is an on-going project (5-year contract) where DCI provides Hospital Information System for the LGU hospitals.

3. Bureau of Customs – This is a project related to Cyber Security package solution, which was completed in the year 2016.

4. 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.

5. 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.

6. Philippine Economic Zone Authority (PEZA) - A system development project composed of three modules, which started on March 29, 2016. 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).

7. PNP Online Police Clearance (Cebu City) - An Online Application for Philippine National Police (PNP) Clearance project which piloted in Cebu City and started live-production in Q3 of 2016. 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 that will be implemented in Q1 of 2017.

c. **Other Opportunities** - Development of Applications. DCI has started development of various solutions and applications for clients' need such as PEZA, Philippine Postal and other government agencies. The applications are:

1. **Billing System**

The Billing System generates the billing statements of the different companies. The generated billing is a consolidation of the different billing categories such as Space Rentals, Pole Rentals, Water and Sewerage, Garbage Collection, Administrative Fees, Security Guard Fees and others.

The billing also includes the Value Added Tax being collected to companies that are not exempted. Late payments are also being penalized and computations of such shall also be included in the outstanding balance of the company and must reflect the billing statements.

2. **Document Management System**

The DCI Document Management System is used as a central document repository and retrieval system of all types of documents. It allows the organization/agency to define documents with varying contents. It allows multiple sets of users across user-defined roles, which can leverage for its security.

Confidentiality can be upheld within the organization/agency. It can be used to archive and index a big number of documents in a very fast pace. It can be used for Government | Schools | Hospitals | Legal and other sectors that might need this system.

With this, agencies that are burdened with loads of paper documents at this point in time can head start its digitization using this software. Accomplished indexes can be consumed as its enterprise-wide data bank. Digitization, on the other hand can help reduce physical handling and storage costs as well as abet safety on fire and dust hazards. It also advocates aversion to climate change by reducing not only paper usage, but, power consumption in retaining such paper documents. Information collected through digitization can also be shared with other organization/agencies with the need of such information for collective decision-making. It uses cutting edge technology with capability of big data storage. It employs an advanced search mechanism where all terms used in the indexes are listed for its search. Any number of indexes can be configured for each document type.

3. Payment Collection System

The DCI Payment Collection System accepts entries on payments by the companies. The system will be able to accept payments for the Generated Billing and items entered in the Order of Payment modules as well as Direct Income (Walk-in) payments. These consequently update the ledgers of the companies and individuals. It will provide the generation of Official Receipts for every transaction.

The system is developed as a separate client-server windows application that is directly connecting to the Billing Database where only the cashier level login can access.

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

1. Accounts Receivable - Non-Trade includes claim from the Bureau of Internal Revenue (BIR) for the overpayment of Value Added Tax (VAT) amounting to P13.133 million, the right to claim of which has already prescribed yet no allowance for bad debts was provided contrary to Philippine Accounting Standards (PAS) 39, resulting in the overstatement of both Accounts Receivable and Net Income for the period by the same amount.

1.1 Paragraph 4.4 of the Conceptual Framework for Financial Reporting provides:

> *"(a) An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity."*

1.2 PAS 39 also requires assessment of asset for evidence of impairment as follows:

> *"58 An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. X x x*
>
> *63 If there is objective evidence that an impairment loss on financial assets measured at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition).* ***The carrying amount of the asset shall be reduced either directly or through use of an allowance account****. The amount of the loss shall be recognized in profit or loss.* ***(emphasis supplied)"***

1.3 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)"***

1.4 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.

1.5 Audit disclosed that there were erroneous payment of VAT amounting to P13.133 million for the years 2006, 2007 and 2008. These were recorded as Accounts Receivable - Non-Trade pending refund from the BIR.

1.6 In a letter dated March 18, 2009 to the BIR, the Corporation requested a Tax Credit Certificate for the erroneous payment of the net VAT totaling P13.133 million, however, as of December 31, 2016, the said amount remained uncollected. In 2016, the reglementary period of two years within which to file suit or proceeding from the date of payment of the tax has already lapsed. There was no action or proceeding filed by Management with BIR for the tax refund, hence, the Corporation's right to recover the alleged erroneous payment of VAT has already prescribed.

1.7 As of December 31, 2016, no allowance for bad debts was provided for the receivable whose right to claim has already lapsed, contrary to PAS 39. As a result, the Receivables and Net Income for the period were both overstated by P13.133 million.

1.8 This is a reiteration of prior year's audit observation.

1.9 **We recommended that Management provide an allowance for impairment and credit losses or derecognize the Accounts Receivable - Non-trade from BIR presented in the financial statements.**

1.10 Management commented that an Appeal Letter was filed by Management with the BIR on November 11, 2016 requesting, among others, reconsideration in the assessment for Taxable Year 2007 of the Tax Credit Certificates requested by the DCI. The Appeal was filed in response to the Final Decision on Disputed Assessment dated October 7, 2016 issued by the BIR which did not consider the tax credit certificates claimed by the DCI.

1.11 As a rejoinder, it appears that the collectability of the Accounts Receivable – Non Trade from BIR is nil, hence we reiterated our recommendation discussed in paragraph 1.9.

2. The recognition, measurement and disclosure of Retirement Gratuity Plan were not in accordance with PAS 19 thereby casting doubt on the valuation of the pension payable and past service pension cost payable amounting to P11.361 million and P11.114 million, respectively, as of the year ended December 31, 2016.

2.1 This is a reiteration of prior year's audit observation.

2.2 On June 1, 1998, 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.

2.3 Article V, Sections 2 and 3 of the Employees' Retirement Plan of DBP 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 (10) years of service for the Participant hired after July 1, 1994.

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*

2.4 This type of employee benefit is identified by PAS 19, Employee Benefit Obligations, paragraph 30 as a Defined Benefit Plan which states that:

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.

2.5 *Paragraph 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).

2.6 Review of the Pension liability account disclosed that the obligation was measured at P11.361 million which is equivalent to the value of the trust fund held with the DBP Trust Banking Group.

2.7 The corresponding past service pension cost was recognized at P11.114 million 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.

2.8 Both the pension payable and past service pension cost payable were not accounted for in accordance with PAS 19. Thus, the valuation of pension payable and past service pension cost payable accounts recorded at P P11.361 million and P11.114 million, respectively, as of December 31, 2016 are doubtful.

2.9 Further, paragraph 135 of PAS 19 provides that:

An entity shall disclose information that:

(a) Explains the characteristics of its defined benefit plans and risks associated with them xxx;

(b) Identifies and explains the amounts in its financial statements arising from its defined benefit plans xxx; and

(c) Describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows xxx.

2.10 Review of Notes 8 and 14 to the Financial Statements showed that the aforementioned information was not presented thereto.

2.11 We recommended that Management adhere to the provisions of PAS 19 on the recognition and measurement of the employee retirement benefits.

2.12 In the 2015 Annual Audit Report on DCI, Management informed that an actuarial study of the Retirement Gratuity Plan would be scheduled on or before 30 June 2016 in order to be compliant in the proper recognition, measurement and valuation provisions of PAS 19. No actuarial study, however, was conducted in 2016. The pension liability remains to be recognized, measured and disclosed in accordance with the provisions of PAS 19 on Employee Benefits.

2.13 We maintain that Management adhere to the provisions of PAS 19 on the recognition, measurement and disclosure of the employee retirement benefits and make the necessary adjusting journal entries.

3. Properties with Net Book Value of P4.237 million as of December 31, 2016 were not insured with the Government Service Insurance System contrary to Section 5 of Republic Act 656 and Section 1 of Administrative Order No. 141, thus, denying the Corporation adequate and reliable protection against any damage to, or loss of properties.

3.1 Section 5 of Republic Act No. 656, otherwise known as the Property Insurance Law, which created and established a Property Insurance Fund administered by the Government Service and Insurance System (GSIS) states that:

"Every government, except a municipal government below first class, is hereby required to insure its properties, with the Fund against any insurable risk herein provided and pay the premiums thereon, which, however, shall not exceed the premiums charged by private insurance companies: Xxx"

3.2 Section 1 of AO No. 141 provides as follows:

"All heads, Presidents, General Manager, Board Members, Directors or Trustees of privatized corporations, including proponents/implementors of BOT projects, shall insure with or secure insurance or bonds from the Government Service Insurance System (General Insurance Group) on or of all properties or assets, contracts or agreements, causes or rights or

action, or other insurance interests xxx, at least to the extent of the interests of the Government."

3.3 The DCI is a government-owned and controlled corporation which has a total Property, Plant and Equipment (PPE) of P11,334,247 as of December 31, 2016, details of which are as follows:

Particulars	Cost	Accumulated Depreciation	Net Book Value
Office Equipment	615,125	304,194	310,932
Furniture and Fixtures	3,807,496	2,619,502	1,187,994
Information and Communication Technology Equipment	4,428,269	3,485,919	942,350
Motor Vehicles	1,807,946	603,000	1,204,946
Leasehold Improvements	675,410	84,426	590,984
TOTAL	**11,334,247**	**7,097,041**	**4,237,206**

3.4 Our audit disclosed that DCI did not insure the above properties with the Government Service Insurance System contrary to Section 5 of Republic Act 656 and Section 1 of Administrative Order No. 141, thus, denying the Corporation adequate and reliable protection against any damage to, or loss of their properties.

3.5 **We recommended that Management insure its property with the GSIS.**

3.6 Management accepted the audit observations and committed to comply with the audit recommendation.

4. 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.

4.1 Section 25 Republic Act (RA) No. 10149 provides the disclosure requirements for all GOCCs, to wit:

> *"Section 25. Full Disclosure.—All GOCCs shall maintain a website and post therein for unrestricted public access:*
>
> *Xxx*
> *(e) Complete compensation package of all the board members and officers, including travel, representation, transportation and any other form of expenses or allowances;"*

4.2 DCI is a wholly-owned subsidiary of the Development Bank of the Philippines 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. DCI is also a government-owned and controlled corporation (GOCC) under the governance of the GCG classified as a non-government financial institution, primarily as a support unit to DBP.

4.3 Also, as a GOCC under the Corporation Code, the DCI is contributing premiums to the Social Security Service (SSS) for social security benefits including sickness, maternity, disability, retirement, death and funeral.

4.4 In addition to the SSS retirement benefits, DCI has a Retirement Gratuity Plan to provide financial benefits to DCI employees upon their separation from the service. The Amendment to the Retirement Plan was approved by the Board on July 20, 1994.

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

4.6 The Board of Directors of DBP has also adopted Resolution No. 3173 in its regular meeting held on October 6, 1982, approving Group Life Insurance for DCI officers and employees. It is stated therein that the officials and employees shall be covered by group life insurance in an amount equivalent to three times their annual salary.

4.7 Review of Journal Vouchers for CY 2016 disclosed recognition of pension expenses and past service pension cost payable amounting to P2.220 million. DCI also paid P150,780.21 to a private insurance company for group life insurance.

4.8 The Total Compensation Package in the website of DCI, however, did not include the additional retirement benefits and group life insurance of DCI officers and employees contrary to Section 25 (h) of RA 10149.

4.9 The Corporation violated good Corporate Governance with its non-compliance on full disclosure of total compensation package.

4.10 **We recommended that Management 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.**

4.11 Management accepted the audit observation and committed to comply with the audit recommendation.

Gender and Development

5. 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 for Women" and the Philippine Plan for Gender-Responsive Development (PPGD) 1995-2025, hence, may be subjected to penalties under Section 41 of the Act.

5.1 Section 37 A.1 of the Implementing Rules and Regulations (IRR) of R.A. 9710 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. Xxx
b. Xxx
c. At least five percent (5%) of the total agency or LGU budget appropriations shall correspond to activities supporting GAD Plans and Programs. Xxx."

5.2 PCW Memorandum Circular No. 2014-04 dated 29 September 2014 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."

5.3 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 violations as well as the head of the agency xxx shall be held liable under this Act.

5.4 The DBM and the Philippine Commission for Women (PCW, formerly NCRFW), encourages GOCCs with no government support to seek the endorsement of the PCW for their GAD Plans. As a subsidiary of the Development Bank of the Philippines, DCI is a GOCC covered by RA 9710, hence, should implement its provisions.

5.5 An Audit Observation Memorandum was first issued in February 28, 2013 for the non-preparation of 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.

5.6 DCI committed to coordinate with the Human Resources Department of DBP for the inclusion of DCI employees in DBP GAD Plans and Budget. A letter was sent by DCI to DBP-HR dated June 27, 2014, 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 has indeed been included in the GPB of DBP as of this reporting date and no GAD Plan and Budget was prepared for 2016.

5.7 Due to the absence of a GAD Plan, DCI was not able 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.

5.8 **We recommended that Management:**

a. **Coordinate with DBP and PCW in formulating its own GAD Plans and Budget;**

b. **Designate a person or unit within the Organization who will be responsible for the development and monitoring of the requirement of RA 9710; and**

c. **Submit to COA GAD Plans, Budget and GAD Accomplishment Report.**

5.9 Management commented that DCI joins the activities of DBP on GAD related activities and attributes corresponding cost/expenses to DBP. However, no evidence was obtained by the audit team to support Management's assertion.

5.10 Management committed that a committee will be organized to be the focal group responsible for the development and monitoring of the requirement of RA 9710 and will submit attribution of expenses as part of the accomplishment.

Compliance with Tax Laws

6. In 2016, DCI complied with the requirements of Revenue Regulations No. 19-2011 and 15-2010 which implements Section 6(H) of the Tax Code of 1997, authorizing the Commissioner of Internal Revenue to prescribe additional procedural and/or documentary requirements in connection with the preparation and submission of the financial statements accompanying the tax returns.

6.1 In compliance with tax laws, information on taxes and licenses paid or accrued during the taxable year 2016 are disclosed in Note 21 to the Financial Statements.

SSS Contributions and Remittances

7. For CY 2016, 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

8. In 2016, 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.

8.1 DCI also complied 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.

Status of Audit Suspensions, Disallowances and Charges

9. The audit disallowances as at December 31, 2016 amounted to P8.590 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. The Notices of Disallowance (ND) issued during the year are as follows:

ND Date	ND No.	Particulars	Amount
03/17/2016	ND No. 2016-05 (2015)	Payment for health care insurance from private companies	807,061.17
03/21/2016	ND No. 2016-06 (2015)	Payment for additional benefits: grocery allowance, anniversary bonus, hospitalization, optical & dental	1,969,773.75
Total			**2,776,834.92**

9.1 There are no audit suspensions and charges as of December 31, 2016.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 17 audit recommendations embodied in CY 2015 and prior year's AARs, 15 were implemented and two were not implemented. The unimplemented recommendations are reiterated in Part II of the report.