

EXECUTIVE SUMMARY

Introduction

The National Development Company (NDC) was established as a semi-private corporation on March 10, 1919 through Legislative Act No. 2849, as amended by Legislative Act No. 2873. On November 13, 1936, it became a public corporation through Commonwealth Act No. 182, as amended by Commonwealth Act No. 311 dated June 9, 1938. Pursuant to Presidential Decree No. 1648, NDC was reorganized on October 25, 1979 to be the government's investment arm under the Department of Trade and Industry.

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

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

- adopt a new philosophy and strategy by sourcing and investing funds in a portfolio of socially relevant and commercially driven projects, the returns from which shall balance out the generation of income streams and ensure sustainable financial returns to uphold the government's shareholder value;
- adopt a more aggressive divestment policy and clearer exit mechanism on its equity investments which could be best handled by the private sector; and
- act as a holding company to manage its subsidiaries where government investments are placed, ensure that their growth potentials are maximized to enhance government's shareholder value and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

Scope and Objectives of Audit

The audit covered the accounts, transactions and operations of NDC for calendar years 2016 and 2015. It was aimed at expressing an opinion on the fairness of presentation of the Company's financial statements, and at determining the Company's compliance with pertinent laws, rules and regulations, as well as the efficiency and effectiveness of operations.

Financial Highlights

Comparative Financial Position

	2016	2015 (as restated)	Increase (decrease)
Assets	16,269,868,886	12,675,121,939	3,594,746,947
Liabilities	4,512,412,052	5,735,373,275	(1,222,961,223)
Equity	11,757,456,834	6,939,748,664	4,817,708,170

Comparative Results of Operations

	2016	2015 (as restated)	Increase (decrease)
Income	3,698,085,673	4,711,915,989	(1,013,830,316)
Expenses	722,698,103	298,081,245	424,616,858
Net profit	2,975,387,570	4,413,834,744	(1,438,447,174)

Independent Auditor's Report on the Financial Statements

We rendered an unqualified opinion on the fairness of presentation of the financial statements of the Company for the years 2016 and 2015.

Audit Observations and Recommendations

1. The absence of a written accounting policy to serve as guide in the determination of the timing and interval in the conduct of appraisal and in the recognition of changes in fair value resulted in reporting the investment property at amounts which may not approximate their fair value at reporting dates.

We recommended and Management agreed to formulate an accounting policy on the timing and interval in obtaining fair value of investment property and in reporting in the financial statements, taking into consideration the requirements of PAS 40.

2. Several land assets are vacant and some are occupied by illegal occupants either for residence, commercial or personal purposes, depriving NDC of potential income from the use of such assets.

We recommended that Management:

- a) Collect rental from unauthorized users/occupants; and
- b) Dispose the vacant lots and those occupied by illegal settlers.

3. Payment of premiums for the personal accident insurance of NDC's officers and employees in the total amount of P21,160 is contrary to the provisions of RA 6758 as embodied in EO 184 and DBM-CCC No. 10.

We recommended that Management:

- a) Stop disbursing funds for payment of personal accident insurance premiums; and
 - b) Strictly comply with the provisions of RA 6758 as embodied in EO 184 and DBM CCC No. 10.
4. The grant of interest-free loans amounting to P1.100 million to officers and employees is contrary to condition no. 2 of the DBM approved budget.

We recommended that Management:

- a) Stop disbursing funds for the grant of interest-free loan packages; and
- b) Strictly comply with condition no. 2 of the DBM approved budget.

Summary of Suspensions, Disallowances and Charges as of Year-end

As at December 31, 2016, the unsettled Notices of Disallowance amounted to P18.817 million. Of this amount, P1.717 million is with Petition for Review on Certiorari filed with the Supreme Court on May 9, 2011. P15 million was not settled despite issuance of COA Order of Execution dated February 6, 2014, and P1.375 million is pending resolution by the Commission Proper pursuant to Rule V, Section 7 of the 2009 Revised Rules of Procedure of the Commission on Audit.

Status of Implementation of Prior Years' Audit Recommendations

Of the six audit recommendations embodied in prior years' Annual Audit Reports, three were fully implemented/reconsidered and three were not implemented.