

EXECUTIVE SUMMARY

A. Introduction

The National Labor Relations Commission (NLRC) was created under Article 213 of Presidential Decree No. 442, otherwise known as the Labor Code of the Philippines (LCP). The NLRC is attached to the Department of Labor and Employment for program and policy coordination.

The NLRC is mandated to promote and maintain industrial peace based on social justice by resolving labor and management disputes involving both local and overseas workers through compulsory arbitration and alternative modes of disputes resolution. Pursuant to Article 217 of the LCP, the Labor Arbiters shall have original and exclusive jurisdiction to hear and decide on the following cases involving all workers whether agricultural or non-agricultural:

- Unfair Labor Practice case;
- Termination disputes;
- If accompanied with a claim for reinstatement, those cases that workers may file involving wages, rates of pay, hours of work and other terms and conditions of employment;
- Claims for actual, moral, exemplary and other forms of damages arising from the employer-employee relationship;
- Cases arising from any violation of Article 264 of the LCP, including questions involving the legality of strikes and lockouts; and
- Except claims for Employees Compensation, Social Security, Medicare and Maternity Benefits, all other claims, arising from employer-employee relations, including those of persons in domestic or household services, involving an amount exceeding five thousand pesos (₱5,000.00) regardless of whether accompanied with a claim for reinstatement.

The adjudicatory powers of the NLRC are being exercised by the 93 Offices of Labor Arbiters in the NLRC-Regional Arbitration Branches (RABs) and the Commission Proper that sits in eight Divisions. The Commission Proper is a tripartite in representation. Each of the eight divisions has three members with the Presiding Commissioner representing the government sector and the remaining two members representing the workers' and the employers' sectors. The first six Divisions handle appealed cases from the National Capital Region (NCR), and other parts of Luzon (Region Nos. I to V and CAR), the Seventh Division handles appealed cases in the Visayas Region and the Eight Division for appealed cases in the Mindanao area.

With the passage of Republic Act (RA) No. 9347, the NLRC Rationalization Act, which took effect on August 26, 2006, the Commission is composed of a Chairman, 23 Commissioners, 70 Commission Attorneys and 154 Labor Arbiters, of which 96 are in the NCR. It is presently headed by Chairman Gerardo C. Nograles, assisted by the Acting Executive Clerk of the Commission, Atty. Elenita F. Cruz, Labor Arbiter with the former having administrative supervision over the Commission, its regional branches and all its personnel, including the Executive Labor Arbiters and the Labor Arbiters.

The Commission has 1,272 plantilla positions of which 1,033 are filled-up as of year-end leaving a balance of 239 unfilled positions. The Main and RABs Offices have 236 and 797 officers and employees, respectively. There are 36 employees on Job Order basis and one casual.

To carry out this mandate, the NLRC is authorized under Rule VI, Section 6 of the Rules of Procedures of the NLRC to collect cash and surety bond in an amount equivalent to the monetary award, exclusive of moral and exemplary damages and attorney's fees. The cash bonds and garnished amounts are treated as Trust Receipts and are deposited in an Authorized Government Depository Bank (AGDB) as an exemption from the provision of Executive Order (EO) No. 338 implemented by the Commission on Audit (COA), Department of Budget and Management (DBM) and Department of Finance (DOF) Joint Circular No. 1-97 dated January 2, 1997 which requires the transfer to the National Treasury cash balances of fiduciary funds deposited in the AGDB. This authority is contained in a letter dated May 5, 2004 of the DBM Secretary informing the NLRC Chairman of the approval of the President of the latter's request for exemption.

The NLRC is adopting a partially decentralized system of accounting. One set of books of accounts is maintained for Main Office including the 1st to 6th Divisions, and RAB-NCR. The 7th and 8th Divisions, the 15 RABs (I-XIII, NCR and CAR) and 10 Sub-RABs (1, 3 to 10 and 12) maintain separate set of books of accounts.

B. Operational Highlights

The NLRC reported the following major accomplishments per its Major Final Output (MFO) No. 1 and Performance Indicators on Labor Disputes Resolution Services for Calendar Year (CY) 2016:

Level	Target	Accomplishment	Percentage
1. Number of cases settled and/or decided			
RABs-Original Cases	38,700 cases		
• Conciliation and Medication		24,563	
• Compulsory Arbitration		17,267	
Sub-total		41,830	108
Commission Proper-Appealed Cases	11,400 cases	11,157	98
Total		52,987	106
2. Percentage Increase in cases resolved through conciliation-mediation			
RABs	50 %	59%	117
3. Percentage of cases decided within three months from filing of cases			
RABs	60 %	72%	120
Commission Proper	60 %	93%	154

Under the Project SpeED both the NLRC RABs and Commission Proper attained 98.71 percent or 41,701 disposed cases, out of 42,247 targeted cases to be disposed within the prescribed period/process cycle of nine months for the RAB and six months for the Commission Proper, as presented below.

(Nine months for RABs and six months for Commission)

Level	Target cases to be disposed within the prescribed period	Actual cases disposed within the prescribed period	Percentage
Regional Arbitration Branches (RABs) – Original Cases	31,088	30,544	98.25
Commission Proper – Appealed Cases	11,159	11,157	99.98
Total	42,247	41,701	98.71

In CY 2016, under the MFO 1, the NLRC posted an overall case output of 52,987 cases, 24,563 cases were disposed of through conciliation and mediation including 11,286 settled RFAs under the Single-Entry Approach and 17,267 cases through compulsory arbitration by the RABs and 11,157 appealed cases by the Commission Proper.

The RABs achieved an actual disposition of 41,830 cases or 108 percent of their targets, 74 percent were resolved in favor of labor while 26 percent were decided in favor of the Management. On the other hand, the Commission Proper attained 98 percent or 11,157 of its target disposition of cases, of which 70 percent were resolved in favor of labor and 30 percent in favor of the Management. Details are presented below:

Labor Dispute Resolution Services

Office	Actual Cases Disposed of	Disposed Cases in Favor of:			
		Labor (Employee)	Percentage	Management (Employer)	Percentage
RABs	41,830	31,045	74	10,785	26
Commission Proper	11,157	7,833	70	3,324	30
Total	52,987	38,878	73	14,109	27

The Commission Proper received a total of 10,970 cases during the year. There was an increase of 214 cases as compared to the previous year of 10,756 cases. In the RABs, cases received in 2016 increased by 603 cases, from 29,739 in CY 2015 to 30,342 in CY 2016. At the end of 2016, eight thousand two hundred four original cases and 658 appealed cases or a total of 8,862 cases are still on hand which is lower by 389 cases as compared with the ending balance of 9,251 in CY 2015.

Labor Cases Received and Disposed						
Office	Balance 12/31/15	Cases Received in CY 2016	Total Cases Handled	Disposed Cases	Percentage	Balance 12/31/16
Commission Proper	845	10,970	11,815	11,157	94	658
RABs	8,406	41,628	50,034	41,830	84	8,204
Total	9,251	52,282	62,378	52,987	85	8,862

Out of ₱7,175,962,524.95 judgment awards at the RABs benefiting 36,353 workers, ₱3,145,625,296.66 was awarded through compulsory arbitration settlement, benefiting 21,962 workers, and ₱4,030,337,228.29 through decision on the merits benefiting 14,391 workers. At the Commission Proper, ₱17,563,563,762.67 was awarded, benefiting 18,852 workers. Details are presented below:

Mode of Resolution	Amount Awarded	No. of Workers Benefitted
RABs		
- By way of settlement	3,145,625,296.66	21,962
- Decision on the merits	4,030,337,228.29	14,391
Sub-Total	7,175,962,524.95	36,353
Commission Proper	17,563,563,762.67	18,852
Total	24,739,526,287.62	55,205

Under the “Double-Barreled (Two-Cycle) Conciliation-Mediation Program”, a program wherein the venue for settlement of all labor disputes is done and exhausted through the following: a) mandatory conciliation-mediation prior to compulsory arbitration pursuant to the Single-entry Approach (SEnA) Rules of Procedure; and b) mandatory conciliation-mediation during compulsory arbitration pursuant to the CY 2011 NLRC Rules of Procedure, as amended, is presented as follows:

Double-Barreled Conciliation-Mediation Program

Regional Arbitration Branches (RABs)	No. of Settled Labor Disputes	No. of Workers Benefitted	Judgement Award
Mandatory conference under SEnA	11,286	13,513	1,520,486,865.49
Mandatory conference under Compulsory Arbitration	13,277	21,962	3,145,625,296.66
Total	24,563	35,475	4,666,112,162.15

C. Financial Highlights

The NLRC had a total appropriation of ₱756,295,000.00 under the General Appropriations Act (GAA) for Fiscal Year (FY) 2016. The total budget reached ₱1,090,833,867.00 with automatic appropriations amounting to ₱34,551,000.00 and Special Purpose Funds for Pension and Gratuity Fund, Retirement Gratuity and Miscellaneous Personnel Benefits totaling ₱299,987,867.00. Total allotments received amounted to ₱1,094,910,024.00, obligation incurred of ₱1,079,026,002.37 leaving a balance of ₱15,884,021.63. Details of allotments, obligations incurred and unobligated balance including the cash allocations are shown in the table on the next page:

a. Appropriations, Allotments, Obligations Incurred and Balances

Sources of Funds	Appropriations	Allotment	Obligations Incurred	Unobligated Balance
Current Year's Appropriations				
1. Regular Funds				
Personnel Services (PS)	567,974,000.00	565,595,157.00	565,595,157.00	-
Maintenance and Other Operating Expenses (MOOE)	153,167,000.00	153,167,000.00	153,154,849.53	12,150.47
Capital Outlay	35,154,000.00	35,154,000.00	20,120,050.72	15,033,949.28
Sub-total	756,295,000.00	753,916,157.00	738,870,057.25	15,046,099.75
2. Other Releases-Special Purpose Funds				
PGF- Pensions	-	46,939,097.00	46,338,249.00	600,848.00
PGF-Monetization	-	19,063,186.00	19,063,186.00	-
PGF-Terminal Leave	-	57,980,287.00	57,980,287.00	-
Retirement Gratuity	-	-	-	-
Miscellaneous Personnel Benefit Funds	-	176,005,297.00	176,005,297.00	-
Sub-total	-	299,987,867.00	299,387,019.00	600,848.00
3. Automatic Appropriations				
Retirement and Life Insurance Premiums	34,551,000.00	41,006,000.00	40,768,926.12	237,073.88
Sub-total	34,551,000.00	41,006,000.00	40,768,926.12	237,073.88
Total	790,846,000.00	1,094,910,024.00	1,079,026,002.37	15,884,021.63

b. Notice of Cash Allocation

Fund	Cash Allocation	Obligations Liquidated	Unutilized Balance	Reversion to National Treasury
101	1,050,705,108.00	947,229,357.74	103,475,750.26	103,475,750.26

The Agency's comparative financial position and performance for CYs 2016 and 2015 are as follows:

Particulars	2016	2015
Financial Position		
Assets	1,935,919,828.51	1,827,564,323.92
Liabilities	1,854,068,889.00	1,752,561,297.02
Equity	81,850,935.51	75,003,026.90
Financial Performance		
Revenue	21,710,009.81	21,373,080.24
Less: Current Operating Expenses		
PS	886,557,318.38	776,730,728.29
MOOE	155,160,783.70	141,848,835.90
Financial Expenses	6,629.44	9,005.00
Non-Cash Expenses	7,022,905.29	11,235,566.45

Particulars	2016	2015
Surplus (Deficit) from Current Operations	(1,027,037,627.00)	(908,451,056.01)
Net Financial Assistance/Subsidy	1,058,302,215.55	923,959,070.61
Gains	860,598.20	81,000.00
Losses	(23,076.05)	-
Surplus (Deficit) for the Period	32,102,110.70	15,589,025.21

For CY 2016, the NLRC-Main and RABs reported a total collections/receipts of nominal fees and charges of ₱24,574,690.13 from appeals, deposits, certifications, certified machine copies, filing and execution fees, interests on bank deposits, miscellaneous and other fees for the account of the National Government of which was totally remitted to the National Treasury. The depository banks of NLRC for Trust/Fiduciary Fund accounts are the Land Bank of the Philippines (LBP) starting in February 2009 and the United Coconut Planters Bank (UCPB). The latter is accredited by the Department of Finance as a depository bank of National Government Funds under its Memorandum dated November 12, 2002 and Department Order No. 27-05 dated December 9, 2005. The table below presents the details of collected fees and charges:

Sources of Nominal Fees and Charges	Amount
Appeal Fees	2,306,680.00
Certification Fees and Clearance Fees	3,324,237.88
Interest Income	3,338,751.65
Filing and Legal Fees	3,958,691.27
Miscellaneous Fees	8,781,649.01
Sub-Total Service Income	21,710,009.81
Add: Other receipts	2,864,680.32
Total	24,574,690.13

D. Scope of Audit

The audit covered the review of accounts and operations of the NLRC's Main Office, eight Divisions, 14 RABs and 10 Sub-RABs for CY 2016. The audit was conducted to: (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) determine the propriety of transactions as well as the extent of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementations of prior years' audit recommendations.

E. Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the NLRC for CY 2016 for reasons stated in the attached Independent Auditor's Report and as discussed in Part II of this Report.

F. Significant Audit Observations and Recommendations

The following are the significant observations and recommendations, among others, which were discussed in detail under Part II of this report:

1. Of the 50,034 original cases handled for the year 2016 by the NLRC RABs, 41,830 were disposed of exceeding the Agency's 38,700 targets provided in its Performance Indicator under the FY 2016 GAA. Likewise, under the Project Speedy and Efficient Delivery of Labor Justice (SpeED) which set the nine months process cycle time (PCT) for RABs and six months PCT for the Commission Proper to dispose of original and appealed labor cases, respectively, of the 42,247 cases that needed to be disposed of, 98.71 percent accomplishment rate was achieved. Moreover, of the 6,161 appealed cases before the Court of Appeals, 6029 or 98 percent were affirmed exceeding its 92 percent accomplishment rate per GAA commitment. **(Observation No. 1)**

We commended the high disposition rate of labor dispute resolution services in NLRC RABs VIII, X and XII and the Agency for achieving more than its 92 percent target of its appealed cases being affirmed by higher authority. We also recommended that Management continue to focus on its good performance for speedy disposition of labor cases.

2. Due to various errors in recording collections of NLRC Main Office, the reported asset, liability and Accumulated surplus/Deficit accounts were understated by ₱82,768.81, ₱20,152.84 and ₱62,615.97, respectively, in violation of the pertinent provisions of the Government Accounting Manual (GAM), Volume 1. Likewise, the Accountant did not submit monthly Bank Reconciliation Statements which prevented the immediate detection of discrepancies between the book and bank records and to draw promptly the adjusting entries thereon. Moreover, the accountable officer of NLRC, Sub-Regional Arbitration Board (Sub-RAB) VI did not deposit intact and regularly her collections contrary to Section 69 (1) of Presidential Decree (PD) No. 1445, thereby exposing the same to risks of loss and misuse. **(Observation No. 2)**

We recommended that the Management require the concerned officials of the Accounting Unit of NLRC-Main Office to:

- a. prepare monthly bank reconciliation statements;**
- b. exercise due care in recording transactions and using the proper accounts as prescribed in the pertinent provisions of Volumes I and III of the GAM;**
- c. prepare the appropriate adjusting journal entries to correct the aforementioned errors; and**

d. analyze thoroughly the accounts in the financial statements to ensure reliability thereof.

We likewise recommended to the NLRC RAB VI that the Accountable Officer must deposit her collections intact and regularly as required by PD No. 1445.

3. The Cash in Bank-Local Currency, Current Account (Execution Fund) of the NLRC Main Office was misstated as it reported an abnormal negative balance of ₱144,556.13 due to incomplete reports submitted, inaccurate bank reconciliation statements, discrepancies on the results of bank confirmation and insufficient documentation of bank transactions. **(Observation No. 3)**

We recommended that the Management require the Accountant to:

- a. **effect adjustments as a result of the bank reconciliation made for each month as required in Section 7, Chapter 21, Volume I of the GAM to come up with the corrected balance of the account;**
 - b. **exercise due care in recording transactions to ensure the reliability of the financial statements; and**
 - c. **submit monthly Bank Reconciliation Statements.**
4. The reported balance of Inventory accounts of the NLRC Main Office and four NLRC-RABs totaling ₱1,544,656.43 was inaccurate due to several deficiencies such as recording of issuances not duly supported with Report of Supplies and Materials Issued and other evidence of issuance, non-reconciliation between accounting and property records, non-maintenance of Supplies Ledger Cards, and erroneous recording of accounts which resulted to the understatement of PPE, intangible assets and Accumulated Surplus accounts, among others. **(Observation No. 9)**

We recommended that the Management require the:

a. Accountant to:

- **conduct a thorough verification on the noted deficiencies and prepare the necessary journal entries to correct them;**
- **maintain SLCs to record all receipts and issuances;**
- **coordinate and reconcile with the Supply Officer the accounting and property records appearing in the books;**
- **verify, investigate, and adjust immediately all discrepancies noted between the physical and book inventories; and**

- **record only issuances based on the submitted RSMIs which are duly supported with the requisition and issue slips;**

b. Supply Officer to:

- **submit regularly the RSMI to the Accountant so that issuances are promptly recorded by the latter; and**
- **comply with the prescribed form under the GAM in the preparation of the RSMI and RPCI; and**

c. The Accountant and the Supply Officer to regularly reconcile their records.

5. The reported balance of Property, Plant and Equipment (PPE) accounts was understated by ₱22,960,505.42 and correspondingly overstated Other Assets and understated Accumulated Surplus/Deficit by ₱20,825,409.68 and ₱2,135,095.74, respectively, due to errors committed, such as: a) transfer of PPE to Other Assets account, b) non-recording/misclassification of procured capital assets, c) unrecorded disposed assets and d) recording of issuances as expenses. Moreover, the integrity of property custodianship was not established due to incomplete physical count, unreconciled accounting and property records and absence of or un-updated subsidiary records. **(Observation No. 10)**

We recommended that the Managements of the NLRC Main and the concerned RABs undertake and require/direct the responsible officials/offices to undertake the following:

a. Accountant to -

- **prepare and record adjusting journal entries to: a) revert back to the PPE accounts all items reclassified as Other Assets, including unserviceable properties not disposed of; b) record all procured PPE items not previously recognized as PPE; and c) correct the issuance which was re-classified as expenses; and**
- **exercise due care in the recording of financial transactions to ensure the accuracy and reliability of financial reports;**

b. Accounting Units to:

- **maintain PPELCs for proper monitoring of receipt and disposal of properties;**

c. Property Units to

- **conduct complete physical count of all PPE accounts. and submit the corresponding RPCPPE, copy furnished the Audit Team**
- **maintain updated PCs for each PPE items to monitor all acquisitions/issuance and dispositions;**

d. Accounting and Property Units - conduct periodic reconciliation of their records.

6. Service Incentive amounting to ₱227,500.00 was granted to Job Orders (JOs) of the NLRC Main. The amount granted was sourced from the balance of the UCPB Payroll Account that was originally intended for payment of salaries of regular employees contrary to DBM Budget Circular (BC) No. 2016-7 dated December 1, 2016. **(Observation No. 16)**

We recommended that the Management strictly comply with the 6 Line Items in granting the CNA and provide basis why the grant should not be disallowed in audit.

7. Failure of the NLRC RAB VII Personnel-in-Charge to deduct from the leave credits (LC) the equivalent day for tardiness/undertime and absence and/or correctly reflect the equivalent day for the aforementioned events resulted to unreliable leave credit balances in violation of Section 34 of the Omnibus Rules on Leave, hence, the risk of possible loss of government funds. **(Observation No. 17)**

We recommended that management require the Leave Credit In Charge to reflect adjustments in the leave cards and be careful in recording in order not to commit the same mistake, thus, not to prejudice the employees of the agency or not to incur losses of government funds.

The foregoing audit observations and recommendations were communicated through Audit Observation Memorandum (AOM) and discussed in an exit conference with concerned NLRC officials and employees on June 21, 2017. Their comments were incorporated in the Consolidated Annual Audit Report, where appropriate.

G. Status of Settlement of Audit Suspensions and Disallowances

The total balances of disallowances and suspensions as of December 31, 2016 amounted to ₱1,240,740.44 and ₱318,878.90, respectively. The details of the settlement of disallowances and suspensions are discussed in Part II of this Report.

H. Status of Implementations of Prior Years' Audit Recommendations

The status of the implementation of Prior Years' Audit Recommendations is summarized in the table below, the details of which are shown in Part III of this report.

Status of Implementation	Number of Recommendations	Percentage
Fully Implemented	22	51
Partially Implemented	16	37
Not Implemented	5	12
Total	43	100