



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

INDEPENDENT AUDITOR'S REPORT

Atty. GRACE E. MANQUIZ-TAN
Chairperson
National Labor Relations Commission
Quezon City

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of the **National Labor Relations Commission (NLRC)**, which comprise the Statement of Financial Position as at December 31, 2023, and the Statement of Financial Performance, Statement of Changes in Net Assets/Equity, Statement of Cash Flows, Statement of Comparison of Budget and Actual Amount for the year then ended, and Notes to Financial Statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects, and possible effects of the matters discussed in the Basis for Qualified Opinion section of our Report, the accompanying financial statements present fairly, in all material respects, the financial position of NLRC as at December 31, 2023, and its financial performance, changes in net assets/equity, cash flows, and comparison of budget and actual amounts for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Opinion

As discussed in Part II of the Report, the faithful representation of the Trust Liabilities account in the financial statements with a carrying amount of P3,889,675,970.98 as of December 31, 2023 was not established due to a reporting difference amounting to P45,390,365.84 between the balances reflected in the financial statements, and supporting subsidiary ledgers, and unreconciled variance between reciprocal accounts Cash in Bank-Local Currency, Current Account – Trust, and Trust Liabilities amounting to P16,513,207.01, contrary to paragraph 27 of IPSAS 1.

We were not able to perform alternative audit procedures to determine if any adjustments to the Trust Liabilities and Cash in Bank-Local Currency, Current Account are necessary due to the status of the Accounting records of the NLRC.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the NLRC in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 4 – Cash and Cash Equivalents account of the financial statements. The Cash-Collecting Officer account includes funds to support the Trust Liabilities account, which are subject to ongoing litigation due to the accountabilities of two former accountable officers, the uncertainty of collection of P39,574,995.41 may affect the payment of Judgment Awards, or may prejudice the satisfaction of awards of prevailing parties in labor cases to which the funds are intended. Our opinion is not modified with respect of this matter.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

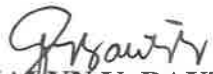
As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit observations, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

COMMISSION ON AUDIT


JEMALYN V. BAUTISTA
OIC/Supervising Auditor

May 30, 2024

EXECUTIVE SUMMARY

A. Introduction

The National Labor Relations Commission (NLRC) was created under Article 213 of Presidential Decree (PD) No. 442, known as the Labor Code of the Philippines (LCP) which took effect on November 1, 1974. It took over the functions of the Court of Industrial Relations (CIR) and the Ad Hoc NLRC established under PD No. 21.

The NLRC and the Regional Arbitration Branches (RABs) were reorganized by Republic Act (RA) No. 6715 enacted on November 1, 1989. It is attached to the Department of Labor and Employment (DOLE) for program and policy coordination. Further, RA No. 9347, which took effect on August 26, 2006, created three additional Divisions in the Commission and the Commission Attorney positions.

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 dispute resolution.

The adjudicatory powers of the NLRC are being exercised by the 142 Offices of Labor Arbiters in the NLRC RABs and the Commission Proper (CP) which sit in eight Divisions. The CP 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; the Seventh Division handles appealed cases in the Visayas Region, and the Eighth Division, for appealed cases in the Mindanao area.

The Commission is composed of a Chairman, 23 Commissioners, 120 Commission Attorneys, and 171 Labor Arbiters, of which 90 are in the NCR. It is presently headed by Chairperson Grace E. Maniquiz-Tan, assisted by the Acting Executive Clerk of the Commission, Atty. Mona Lisa M. Vargas, 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 1,295 approved plantilla positions, of which 1,106 are filled up as of yearend, leaving a balance of 189 unfilled positions. The NLRC Central Office (CO) and RAB Offices have 267 officers and 839 rank-and-file employees. There are 73 employees on a Job Order basis and three casual employees.

The NLRC is adopting a partially decentralized system of accounting. One set of books of accounts is maintained for CO including the First to Sixth Divisions and NCR Arbitration Branch (NCRAB). The Seventh and Eighth Divisions, other 14 RABs (I to XIII and CAR) and 10 Sub-RABs (I, III to X, and XII) maintain separate sets of books of accounts.

B. Operational Highlights

The NLRC-CO and NCRAB reported the following major accomplishments per Organizational Outcomes and Performance Indicators for Calendar Year (CY) 2023:

Organizational Outcomes/ Performance Indicators	Targets	Accomplishments		Total	Percentage of Implementation
		Main	NCR		
Labor Arbitration Program					
1. Percentage of cases resolved through conciliation-mediation	52%	N/A	54.87% (7,715/ 14,061)	54.87% (7,715/ 14,061)	105.52
2. Percentage of original/appealed cases processed within nine (9) months or 270 days/ six (6) months or 180 days	82%	92.93% (13,067/ 14,061)	97.92% (8,173/ 8,347)	94.79% (21,240/ 22,408)	115.60
3. Percentage of decisions affirmed by a higher court	95%	98.67% (6,086/6,168)			103.86
4. Percentage of cases resolved within three (3) months from filing of case	42%	79.83% (6,663/ 8,347)	58.73% (8,258/ 14,061)	66.59% (14,921/ 22,408)	158.55

C. Financial Highlights

For CY 2023, NLRC has total appropriations of P2,001,531,606.00 which includes Agency Specific Budget of P1,382,999,000.00, net of adjustment, Automatic Appropriations of P73,749,000.00, and Special Purpose Funds of P544,783,606.00, as provided for in the General Appropriations Act (GAA) for Fiscal Year (FY) 2023 or Republic Act No. 11936. During the year, the NLRC received a total allotment of P2,001,531,606.00, out of which, obligations of P2,000,937,706.05 were incurred, leaving an unexpended balance of P593,899.95 as at year-end. Details are presented below:

Source of Funds	Adjusted Appropriations	Adjusted Allotments	Obligations Incurred	Unobligated Balance
Current Year's Appropriations (GAA FY 2023)				
<i>Agency Specific Budget</i>				
PS	1,209,508,000.00	1,209,508,000.00	1,209,507,845.15	154.85
MOOE	173,491,000.00	173,491,000.00	173,489,818.21	1,181.79
CO	0.00	0.00	0.00	0.00
Sub-total	1,382,999,000.00	1,382,999,000.00	1,382,997,663.36	1,336.64
<i>Automatic Appropriations</i>				
RLIP	73,749,000.00	73,749,000.00	73,156,436.69	592,563.31
Sub-total	73,749,000.00	73,749,000.00	73,156,436.69	592,563.31
<i>Special Purpose Funds</i>				
Miscellaneous Personnel Benefits Fund	35,858,014.00	35,858,014.00	35,857,427.06	586.94
Pension and Gratuity Fund	507,402,370.00	507,402,370.00	507,402,956.94	(586.94)
MPBF-Staffing Modifications/Upgrading of Salaries (Civilian)	1,523,222.00	1,523,222.00	1,523,222.00	0.00

Source of Funds	Adjusted Appropriations	Adjusted Allotments	Obligations Incurred	Unobligated Balance
Sub-total	544,783,606.00	544,783,606.00	544,783,606.00	0.00
Grand Total	2,001,531,606.00	2,001,531,606.00	2,000,937,706.05	593,899.95

The NLRC's financial position and financial performance for CY 2023, with comparative figures for CY 2022, are as follows:

Particulars	2023	2022
Financial Position		
Assets	4,010,764,533.06	3,912,276,206.40
Liabilities	3,942,655,169.94	3,830,207,400.93
Net Assets/Equity	68,109,363.12	82,068,805.47
Financial Performance		
Revenue	26,796,120.99	25,375,616.22
Current Operating Expenses	2,035,888,289.54	1,871,971,939.13
Net Financial Assistance/Subsidy	1,980,807,639.25	1,862,563,133.58
Sale of Assets	54,925.62	0.00
Gains	3,350.00	2,631.90
Losses	0.00	(500.08)
Surplus/(Deficit) for the year	(28,226,253.68)	15,968,942.49

D. Scope of Audit

The audit covered the review of accounts and operations of the NLRC for the year ended December 31, 2023, in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audit was conducted to: (a) ascertain the level of assurance that may be placed on Management's assertions on the Financial Statements (FSs); (b) determine the propriety of transactions, as well as the extent of compliance with applicable laws, rules, and regulations; and (c) determine the extent of implementations of prior years' audit recommendations.

E. Independent Auditor's Report on the Financial Statements

A qualified opinion was rendered on the fairness of presentation of the FSs of the NLRC as at December 31, 2023, due to reporting difference amounting to P45,390,365.84 between the balances reflected in the financial statements, and supporting subsidiary ledgers, and unreconciled variance between reciprocal accounts Cash in Bank, Local Currency, Current Account – Trust, and Trust Liabilities amounting to P16,513,207.01, contrary to paragraph 27 of IPSAS 1.

F. Summary of Significant Audit Observations and Recommendations

The following are the significant observations and recommendations as discussed in Part II of this Report:

1. Of the total allotments received by the NLRC amounting to P2,001,531,606.00 for CY 2023, P2,000,937,706.05 or 99.97 percent thereof was obligated, leaving

unobligated balance amounting to P593,899.95 as of year-end; while a total of P1,991,477,719.00 were disbursed, posting a disbursement rate of 99.53 percent. (*Observation No. 3*)

We commended the Management for utilizing its budget with almost hundred percent obligation and disbursement rate for CY 2023.

2. NLRC's effective implementation of its clear-cut policies and strategies for the Labor Arbitration Program resulted in the achievement of all four targeted output/outcome performance indicators identified in the FY 2023 GAA, ensuring due process in resolving labor disputes. (*Observation No. 4*)

We commended the Agency's strict implementation of its policies and strategies for the prompt resolution of labor cases which resulted in the Agency's achievement of all the four targeted GAA performance indicators for CY 2023, ensuring due process in resolving labor disputes.

However, we recommended and the Management agreed to ensure that their targets for the succeeding years are met, leaning towards the attainment of the Commission's ultimate goal of achieving fair, speedy, and equitable disposition of labor cases at a lesser cost.

3. Limited effort has been made by RAB XI to inform the winning parties and/or respondents of their unclaimed monetary awards and/or excess judgment awards in an aggregate amount of P46,064,351.92, covering the periods CY 1978 to 2022, preventing them from claiming the same within the soonest possible time, which led to the accumulation of Trust/Fiduciary Funds in the Agency's Government Depository Bank account over the years. (*Observation No. 5*)

We recommended and Management agreed that the:

- a) **Staff of each Labor Arbiter to conduct an inventory of all cases under their sala/jurisdiction and subsequently provide the Administrative Officer and/or Bookkeeper with updated case status inventory reports for reconciliation with the remaining judgment awards recorded in the Agency's books of accounts as of December 31, 2023; and**
 - b) **Administrative Officer to prepare follow-up notification letters once the case inventory reports are reconciled with the accounting records, and afterwards expedite the sending of these letters to the concerned parties to whom judgment award money is due, for them to claim their money the soonest possible time.**
4. Expenditures in CO and NCRAB, and RAB XI totaling P2,351,462.37 were inappropriately charged against Trust Fund – Execution, instead of MOOE under the General Fund, inconsistent with Section 4 of PD No. 1445 and other relevant NLRC

issuances, thus casting doubts on the propriety of the transactions, and consequently depleting the funds for other execution-related expenses. (*Observation No. 6*)

We recommended and the Management agreed to:

- a) **accordingly revise and/or update pertinent issuances to include other MOOE in the list of expenses chargeable against the Execution Fund, to better capture the current situation and needs of the agency;**
 - b) **review the provisions specified in the JO contracts to ensure the accuracy of fund charging, including the duties and responsibilities of the hired JOs to make sure that the accomplished work aligns with the intended usage of the TF-Execution funds; and**
 - c) **through the Administrative Officer and the Bookkeeper, always ensure that concerned JOs will indicate in the WARs the quantifiable data of the actual work they performed/accomplished and to check that complete supporting documentations are attached to the DVs before submitting to the Auditor.**
5. Electronic collections (e-Collections) of the RAB IX through the Self-Collect and Credit (SCC) scheme totaling P10,980,640.22 were not properly supported with complete documentation, contrary to the guidelines on the use of e-Collections as provided under COA Circular No. 2021-014 and the GAM, thus, hindering timely audit and verification of the government transactions. (*Observation No. 7*)

We recommended that Management direct the Cashier to henceforth, strictly comply with the pertinent guidelines of the applicable COA Circular and submit the reportorial requirements within the period prescribed.

The foregoing audit observations and recommendations were communicated through Audit Observation Memoranda (AOMs), and discussed with Management officials in an Exit Conference conducted on May 13, 2024, and their comments were incorporated in this Report, where appropriate.

G. Status of Settlement of Audit Suspensions, Disallowances and Charges

Audit suspensions, disallowances, and charges amounting to P14,643,541.07, P1,825,582.22, and P197,504.16, respectively, or a total of P16,666,627.45 remained unsettled as of December 31, 2023.

H. Status of Implementation of Prior Years' Audit Recommendations

Of the 71 prior years' audit recommendations, 15 were reiterated/restated in Part II of this Report. Of the remaining 56 recommendations, 29 were implemented, while 27 were not implemented. Details of which are discussed in Part III of this Report.