

## 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.

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 113 Offices of Labor Arbiters in the NLRC-RABs and the Commission Proper (CP) that 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, 66 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, 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 plantilla positions, of which, 1,141 are filled-up as of year-end, leaving a balance of 154 unfilled positions. The NLRC Central Office (CO) and RABs Offices have 359 and 782 officers and employees, respectively. There are 32 employees on Job Order basis.

To carry out its 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 of 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 CO including the 1<sup>st</sup> to 6<sup>th</sup> Divisions and NCR Arbitration Branch (NCRAB). The 7<sup>th</sup> and 8<sup>th</sup> Divisions, the 15 RABs (I to XIII and CAR) and 10 Sub-RABs (I, III to X and XII) maintain separate set of books of accounts.

**B. Operational Highlights**

The NLRC reported the following major accomplishments under the following Performance Indicators in its Major Final Output (MFO) on Labor Disputes Resolution Services for Calendar Year (CY) 2018:

<b>Performance Indicators</b>	<b>Target</b>	<b>Accomplishment</b>	<b>Percentage</b>
1. Percentage increase in cases resolved through conciliation-mediation	59%	62.45%	105.84
2. Percentage of original/appealed cases processed within nine months or 270 days/six months or 180 days	94%	94.26%	100.28
3. Percentage of decisions affirmed by a higher court	98%	98.26%	100.27
4. Percentage of cases resolved within three months from filing of case	66%	69.80%	105.76

The NLRC posted an overall case output totaling 63,837 cases, of which, 15,067 cases were disposed of through conciliation and mediation under the Single-Entry

Approach (SEnA), 37,037 cases through compulsory arbitration by the RABs and 11,733 appealed cases resolved by the CP.

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 SEnA Rules of Procedure; and b) mandatory conciliation-mediation during compulsory arbitration pursuant to the CY 2011 NLRC Rules of Procedure, as amended. The NLRC RABs settled 38,196 labor disputes and awarded a total of ₱5,404,716,796.16 Judgment Award benefitting a total of 50,530 number of workers, details as presented below:

<b>RABs</b>	<b>No. of Settled Labor Disputes</b>	<b>No. of Workers Benefitted</b>	<b>Judgment Award (in Pesos)</b>
Mandatory conference under SEnA	15,067	21,867	1,408,100,261.15
Mandatory conference under Compulsory Arbitration	23,129	28,663	3,996,616,535.01
<b>Total</b>	<b>38,196</b>	<b>50,530</b>	<b>5,404,716,796.16</b>

Under the regular Compulsory Arbitration Services of the NLRC (RABs Original Cases and Appealed Cases with the CP), excluding the Request for Assistance (RFAs) received thru SEnA, the following presents the accomplishment of the NLRC on labor cases that were resolved/disposed of in CY 2018 based on inflow of cases received including the beginning balances:

**Regular Inflow and Outflow of Cases (Excluding SEnA)**

<b>Level</b>	<b>Beginning Balance (Jan. 1, 2018)</b>	<b>Total Cases Received Regardless of Age</b>	<b>Cases Handled</b>	<b>Actual Cases Disposed (2018)</b>	<b>Percentage</b>	<b>Ending Caseload (Dec. 31, 2018)</b>
RABs	9,538	39,286	48,824	37,037	76	11,787
CP	637	11,919	12,556	11,733	93	823
<b>Total</b>	<b>10,175</b>	<b>51,205</b>	<b>61,380</b>	<b>48,770</b>	<b>79</b>	<b>12,610</b>

Out of 37,037 cases disposed of, 27,221 or 73 percent were resolved in favor of labor (employee), and 9,816 or 27 percent in favor of management (employer). The amount of Judgment Awards reached ₱7,392,982,005.41 benefitting 49,449 workers. Of the total amount awarded and workers benefitted, ₱3,996,616,535.017 were awarded through settlement, benefitting 28,663 number of workers involved, and ₱3,396,365,470.40 through decisions on the merit, benefitting 20,786 number of workers involved.

On appealed cases, the CP disposed 11,733, of which, 8,014 or 68 percent were resolved in favor of labor (employee) and 3,719 or 32 percent in favor of management (employer). The amount of Judgment Awards reached ₱2,043,380,150.02, benefitting 10,566 number of workers involved, to wit:

**Judgment in Favor of Labor (Employee) and Management (Employer)**

Level	Actual Case Disposed	Case Disposition in Favor of:			
		Labor (Employee)	Percentage	Management (Employer)	Percentage
RABs	37,037	27,221	73	9,816	27
CP	11,733	8,014	68	3,719	32
<b>Total</b>	<b>48,770</b>	<b>35,235</b>	<b>72</b>	<b>13,535</b>	<b>28</b>

The NLRC also implemented the Project Speedy and Efficient Delivery of Labor Justice (SpeED), which prescribes the periods of deciding labor cases brought to the RABs and Appellate Level under its compulsory arbitration services. For the RABs, the Process Cycle Time (PCT) is nine months, while for the appealed cases at the CP, the PCT is six months; the First-In First-Out (FIFO) Policy (En Banc Resolution No. 13-07) which requires a minimum level of performance (quota system of 27 cases per month) and the aging of cases system (no more than 9-month old cases, FIFO Policy).

Both the NLRC RABs and CP attained 94 percent or 45,969 disposed cases, out of 48,770 targeted cases to be disposed within the prescribed period/process cycle of nine months for the RAB and six months for the CP, details as follows:

Level	Target cases to be disposed within the prescribed period	Actual cases disposed within the prescribed period	Percentage
RABs – Original Cases	37,037	34,336	92.71
CP – Appealed Cases	11,733	11,633	99.15
<b>Total</b>	<b>48,770</b>	<b>45,969</b>	<b>94.26</b>

**C. Financial Highlights**

The NLRC had total appropriations of ₱1,192,321,000.00 under the General Appropriations Act (GAA) for Fiscal Year (FY) 2018 consisting of Agency-Specific Budget of ₱1,140,547,000.00 with automatic appropriations for Retirement and Life Insurance Premiums (RLIP) amounting to ₱51,774,000.00 and Special Purpose Funds for Pension and Gratuity Fund, Retirement Gratuity and Miscellaneous Personnel Benefits totaling ₱222,950,955.56. Total allotments received amounted to ₱1,464,139,736.00, with obligations incurred of ₱1,463,612,025.80, thus leaving a balance of ₱527,710.20. Details of allotments, obligations incurred and unobligated balance, including the cash allocations are shown 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 (Agency-Specific Budget)				
Personnel Services	969,600,000.00	1,039,482,113.44	1,039,482,111.96	1.48

Sources of Funds	Appropriations	Allotment	Obligations Incurred	Unobligated Balance
(PS)				
Maintenance and Other Operating Expenses (MOOE)	160,613,000.00	135,683,000.00	135,682,777.76	222.24
Capital Outlay	10,334,000.00	10,334,000.00	10,333,141.19	858.81
<b>Sub-total</b>	<b>1,140,547,000.00</b>	<b>1,185,499,113.44</b>	<b>1,185,498,030.91</b>	<b>1,082.53</b>
2. Other Releases-Special Purpose Funds				
Miscellaneous Personnel Benefit Funds	-	27,265,197.56	27,264,269.27	928.29
Pension and Gratuity Fund	-	195,685,758.00	195,160,061.27	525,696.73
<b>Sub-total</b>	<b>-</b>	<b>222,950,955.56</b>	<b>222,424,330.54</b>	<b>526,625.02</b>
3. Automatic Appropriations				
RLIP	51,774,000.00	55,689,667.00	55,689,664.35	2.65
<b>Sub-total</b>	<b>51,774,000.00</b>	<b>55,689,667.00</b>	<b>55,689,664.35</b>	<b>2.65</b>
<b>Total</b>	<b>1,192,321,000.00</b>	<b>1,464,139,736.00</b>	<b>1,463,612,025.80</b>	<b>527,710.20</b>

#### b. Notice of Cash Allocation

Fund	Cash Allocation	Obligations Liquidated	Unutilized Balance	Reversion to National Treasury
101	1,398,525,397.00	60,941,150.23	1,337,584,246.77	1,337,584,246.77

The Agency's financial position and performance for CY 2018 with comparative figures for CY 2017 are as follows:

Particulars	2018	2017 (As Restated)
<b>Financial Position</b>		
Assets	2,521,432,659.23	2,138,610,538.42
Liabilities	2,435,273,523.95	2,061,615,452.61
Net Assets/Equity	86,159,135.28	76,995,085.81
<b>Financial Performance</b>		
Revenue	24,499,323.46	25,247,191.08
Less: Current Operating Expenses		
PS	1,317,277,312.47	1,079,313,177.65
MOOE	135,819,270.62	125,970,984.26
Financial Expenses	18,393.79	46,214.13
Non-Cash Expenses	7,759,414.80	7,745,383.37
<b>Total Current Operating Expenses</b>	<b>1,460,874,391.68</b>	<b>1,213,075,759.41</b>
<b>Surplus (Deficit) from Current Operations</b>	<b>(1,436,375,068.22)</b>	<b>(1,187,828,568.33)</b>
Net Financial Assistance/Subsidy	1,470,329,226.78	1,223,560,916.42
Sale of Assets	4,945.50	-
Gains	1,272,463.31	1,861,021.67
Losses	-	(2,623.69)
<b>Surplus (Deficit) for the Period</b>	<b>35,231,567.37</b>	<b>37,590,746.07</b>

For CY 2018, the NLRC-CO and RABs reported total collections/receipts of nominal fees and charges of ₱25,295,274.93 from appeals, deposits, certifications, certified machine copies, filing fees, interests on bank deposits, miscellaneous and other fees for the account of the National Government (NG), which was remitted in full to the National Treasury. The table below presents the summary of collected fees and charges:

<b>Sources of Nominal Fees and Charges</b>	<b>Amount</b>
Appeal Fees	3,185,085.00
Clearance Fees	2,803,435.00
Certification Fees	779,228.99
Filing Fees	4,787,460.00
Other Service Income	10,816,173.45
Interest Income	2,817,868.45
<b>Sub-Total Service Income</b>	<b>25,189,250.89</b>
Add: Other receipts	106,024.04
<b>Total</b>	<b>25,295,274.93</b>

#### **D. Scope of Audit**

The audit covered the review of accounts and operations of the NLRC-CO, eight Divisions, 14 RABs and 10 Sub-RABs for CY 2018. 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; and (c) determine the extent of implementations of prior years' audit recommendations.

#### **E. Independent 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 2018 for reasons stated in the attached Independent Auditor's Report in Part I and as discussed in Part II of this Report.

#### **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. Various accounts of the NLRC under the Assets, Liabilities and Equity (including Income and Expenses) categories have misstatements understating the reported Assets and Liabilities totaling ₱85,134,167.29. The accounts also showed various accounting deficiencies amounting to ₱234,135,877.36. Due to the significant impact of such misstatements and accounting deficiencies on the reported balances of the affected accounts, the accuracy, completeness, presentation and existence of the following accounts could not be relied upon:

- 1.1 In RAB No. VIII, the accuracy and validity of the Cash in Bank-Local Currency, Current Account (CIB-LCCA) account amounting to ₱7,900,086.82 as of December 31, 2018 is doubtful considering that various identified reconciling items remained unadjusted for years, including stale checks totaling ₱688,230.16 and unrecorded deposits amounting to ₱354,355.41. (Observation No. 1)

**We recommended that the Management of RAB No. VIII direct the Accountant to prepare JEVs to recognize all identified reconciling items that need adjustment and correction in the books of accounts as required under Section 6, Chapter 21 of the GAM for NGAS, Volume I.**

- 1.2 The 7<sup>th</sup> Division failed to recognize land and building under finance lease costing ₱19,192,480.21 and ₱19,123,511.42, respectively, thereby understating Leased Assets-Land and Leased Assets-Buildings and Other Structures accounts by the same amounts or an aggregate amount of ₱38,315,991.63, contrary to Section 7.a.1 of Chapter 13 of GAM for NGAs, Volume I. Lease Payable account was not recognized upon commencement of the lease term. Hence, understating Accumulated Surplus and Lease Payable accounts by ₱16,106,236.46 and ₱22,209,755.17, respectively, for the monthly rentals from August 2012 to December 2018. (Observation No.1)

**We recommended that the Management direct the Acting Accountant to effect the proposed entries in the recognition of leased assets and its corresponding depreciation to correct the presentation of the leased assets in the books.**

- 1.3 The Management of RAB Nos. V, IX and 7<sup>th</sup> Division recorded collected Fiduciary Funds as Other Payables instead of Trust Liabilities. As of December 31, 2018, the reported balance of Other Payables account in the Statement of Financial Position amounted to ₱45,550,818.69, thus understating and overstating the Trust Liabilities and Other Payables accounts, respectively, by the same amount. (Observation No. 1)

**We recommended that the Management of RAB Nos. V, IX and 7<sup>th</sup> Division require the Designated Accountant to: (a) reclassify and adjust the Other Payables to Trust Liabilities account totaling ₱13,938,689.58; and (b) comply with the provisions of NLRC Administrative Order (AO) No. 07-07, s. 2012 dated July 5, 2012 by releasing checks to payees instead of drawing cash advances to prevent the risk of loss and misappropriation of funds.**

2. On the implementation of the Project Speedy and Efficient Delivery of Labor Justice (SpeED), NLRC attained its 94 percent target in 2018 to dispose labor cases within the prescribed period/process cycle of nine months for the RAB and six months for the CP. However, RABs NCR, CAR, I, II, III, IV, V, VI, VII, XI, and XIII, did not achieve their respective target cases to be disposed. (Observation No. 7)

**We recommended that RABs NCR, CAR, I, II, III, IV, V, VI, VII, XI, and XIII exert more effort to achieve their targets.**

3. Various accounting deficiencies were also noted as follows:
  - 3.1 NLRC RAB No. X and 8<sup>th</sup> Division Office did not conduct physical count of the Agency's PPE, valued at ₱4,517,751.27 and ₱6,075,433.69, respectively, which cast doubts on the validity and existence of the Agency's PPE accounts. (Observation No. 2)

**We recommended and the Management of NLRC RAB No. X and 8<sup>th</sup> Division agreed to conduct physical count of PPE annually and to submit the duly certified and approved RPCPPE not later than January 31 of each year.**

- 3.2 Discrepancy between the balances of the Trust Liabilities account of NLRC CO/NCRAB of ₱1,543,327,175.72 as per General Ledger (GL) and that of the Subsidiary Ledgers (SLs) balance of ₱1,482,457,905.65 which includes recorded Execution Fees without SLs and supporting records. Likewise, Trust Liabilities account of RAB No. VI amounting to ₱74,459,959.90 was not supported with schedules of subsidiary balances. (Observation No. 2)

**We recommended that the Management of NLRC CO/NCRAB and RAB No. VI: Main and NCRAB – (a) direct the Accounting Unit to maintain an SL for Execution Fees separate from the Cash Bonds and Fiduciary Awards; (b) expedite the creation of clear policy/guidelines on the treatment of unclaimed Cash Bonds and Fiduciary Awards; and (c) direct the Accounting Unit to coordinate with the Research Information and Publications Division (RIPD) for the preparation of an updated SL on Cash Bonds and Fiduciary Awards which shall include, among others, (i) information as to whether or not an appeal has been filed by concerned party; (ii) date of appeal; (iii) status of appeal; and period of appeal. RAB No. VI- (d) conduct the inventory of all pending cases in coordination with Labor Arbiters; and (e) submit the updated schedule of Trust Liabilities account and reconcile it with the general ledger controlling figure.**



The foregoing audit observations and recommendations were communicated through Audit Observation Memoranda (AOM) and discussed with Management Officials in an Exit Conference conducted on June 27, 2019 and their comments were incorporated in this Report, where appropriate.

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

The total balances of suspensions, disallowances and charges as of December 31, 2018 amounted to ₱1,234,721.74, ₱1,997,463.40 and ₱997,139.48, respectively. The details of the settlement of suspensions, disallowances and charges are discussed in Part II of this Report.

**H. Status of Implementation of Prior Years' Audit Recommendations**

Out of the 123 prior year's audit recommendations which were contained in the CY 2017 Consolidated Annual Audit Report (CAAR), and in the CYs 2014-2016 CAARs, 62 were fully implemented and 61 were not implemented as of December 31, 2018, as summarized on the following table. The details of prior years' recommendations are discussed in Part III of the Report.

<b>Status of Implementation</b>	<b>Number of Recommendations</b>	<b>Percentage</b>
Fully Implemented	62	50.41
Not Implemented	61	49.59
<b>Total</b>	<b>123</b>	<b>100.00</b>