

EXECUTIVE SUMMARY

INTRODUCTION

The Palacio del Gobernador Condominium Corporation (PDGCC) is a non-stock, non-profit corporation registered with the Securities and Exchange Commission (SEC) on September 23, 1976. It is structured and operated by virtue of Republic Act (RA) No. 4726 or the Condominium Act of the Philippines. It was formed exclusively for the purpose of managing and holding title to the common areas in the eight-storey building project known as the PDGCC Project and for such other purposes as are necessary, incidental or convenient to the accomplishment of said purposes.

Membership in the Corporation is limited exclusively to the owners of the condominium units. Its owners are Philippine Government entities, namely:

- Bureau of the Treasury (BTr) - ¼ of the 1st floor, 2nd, 3rd, 4th and 6th floors
- Intramuros Administration (IA) - 5th floor
- Office of the President (OP) - ¾ of the 1st floor, 7th and 8th floors

The Corporation was formerly exempted from income tax pursuant to Section 30 of RA No. 8424 or the Tax Reform Act of 1997, as amended by RA No. 9337. The issuance, however, of Revenue Memorandum Circular (RMC) No. 65-2012 dated October 31, 2012, as further clarified by RMC No. 9-2013 dated January 29, 2013, clarified the taxability of association dues, membership fees and other assessments/charges collected by condominium corporations. PDGCC has requested from the Department of Finance (DOF) for exemption from payment of taxes and is still awaiting its reply.

The PDGCC is governed and/or managed and controlled by a nine-member Board of Directors who become its officers occupying the following positions: (a) President; (b) Vice President; (c) Treasurer; (d) Assistant Treasurer; (e) Corporate Secretary; (f) Assistant Corporate Secretary; (g) Internal Auditor; (h) Assistant Internal Auditor; and (i) Legal Counsel. It has also an Administrative Committee created in January 2006 and composed of a Chairman and four members.

As at December 31, 2015, the Corporation has five regular employees and one Job Order personnel. The Corporation's principal address is at General Luna corner Andres Soriano, Jr. Streets, Intramuros, Manila.

FINANCIAL HIGHLIGHTS (in Philippine Peso)

I. Comparative Financial Position

Particulars	2015	2014	Increase/ (Decrease)
Assets	35,502,311	32,722,149	2,780,162
Liabilities	9,279,411	9,486,333	(206,922)
Equity	26,222,900	23,235,816	2,987,084

II. Comparative Results of Operations

Particulars	2015	2014	Increase/ (Decrease)
Revenues	19,302,976	14,340,633	4,962,343
Operating expenses	16,315,893	13,335,409	2,980,484
Net income	2,987,083	1,005,224	1,981,859

III. Comparative Budget and Actual Utilization

Particulars	2015		2014	
	Budget	Actual	Budget	Actual
Personal services	1,865,273	1,956,884	1,893,097	1,654,837
Maintenance and other operating expenses	17,857,836	14,359,009	10,338,063	11,680,572
	19,723,109	16,315,893	12,231,160	13,335,409

SCOPE OF AUDIT

Our audits covered the examination, on a test basis, of the accounts, transactions and operations of the PDGCC for the periods January 1 to December 31, 2015 and 2014. Our audits aimed to ascertain the fairness of the presentation of the financial statements in accordance with generally accepted accounting principles in the Philippines and to assess the propriety of financial transactions and compliance of PDGCC with laws, rules and regulations, as well as adherence to prescribed policies and procedures.

AUDITOR'S OPINION

We rendered an adverse opinion on the fairness of presentation of the financial statements of PDGCC for the years ended December 31, 2015 and 2014 due to the following audit observation:

The Corporation did not recognize revenues of P44.436 million, P46.500 million and P56.794 million earned on and the corresponding expenses of P50.998 million, P53.759 million and P45.763 million incurred for CYs 2015, 2014 and 2013, respectively, for the beneficial services rendered to condominium owners contrary to the relevant provisions of the Conceptual Framework for Financial Reporting and Philippine Accounting Standards (PAS) 1 and 18. The non-recognition of the said revenues and expenses resulted in the overstatement of Due from BTr/OP/IA/COMELEC/Pag-IBIG and the understatement of Deferred Tax Assets accounts by P2.789 million and P2.948 million, respectively, and the consequent understatement of Income tax payable and the total Equity by P3.713 million and P3.554 million, respectively.

For the above audit observations that caused the adverse opinion, we recommended that Management:

- a. Recognize all the revenues earned and all expenses incurred for the beneficial services rendered to the condominium owners;
- b. Revise/restate the financial statements to comply with the relevant provisions of the Conceptual Framework for Financial Reporting and PAS 1 and 18;
- c. Recognize the Deferred tax benefits on NOLCO for CYs 2015 and 2014 and the 30% Income tax payable for CY 2013.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. PDGCC Management did not submit/file the reports/returns required by concerned regulatory/oversight agencies of the government thereby subjecting the Corporation to payment of penalties and interests.

1.1 We recommended and Management agreed to:

- a. Diligently submit/file all required reports/returns to the concerned oversight/regulatory agencies of the government; and
- b. Require the persons responsible for the failure to submit and file the required reports/returns to pay the penalties and interests to be charged by the concerned regulatory bodies.

2. The PDGCC administration did not conduct a Physical Inventory of the Corporation's Property, Plant and Equipment (PPE) as of December 31, 2015 and did not submit the results thereof to the Accounting Section for reconciliation with the accounting records and to the Auditor for verification in violation of Section 490 of the Government Accounting and Auditing Manual (GAAM) and Section 38, Chapter 10 of the Government Accounting Manual (GAM).

2.1 We recommended and Management agreed to:

- a. Strictly comply with the requirements of Section 490 of the GAAM and Section 38, Chapter 10 of the GAM on the conduct of an annual physical inventory of PPE;
- b. Reconcile the results thereof with the balance per books; and
- c. Submit the reports thereof to the Auditor for verification.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the nine audit recommendations embodied in the prior years' Annual Audit Reports, three were fully implemented, three were partially implemented and three were not implemented.