

**\*\*Title: Philippine Deposit Insurance Corporation vs. Commission on Audit\*\***

**\*\*Facts:\*\***

The conflict between the Philippine Deposit Insurance Corporation (PDIC) and the Commission on Audit (COA) emerged regarding the financial assistance given by PDIC to Westmont Bank and Keppel Monte Savings Bank (KMSB).

1. **\*\*Westmont Bank Financial Assistance:\*\***

- In a 1st Indorsement dated August 24, 2000, the PDIC Corporate Auditor found that:
- PDIC granted significant financial assistance to Westmont Bank:
- As Associated Bank in 1989: P 400,000,000.
- As Westmont Bank on July 20, 1994: P 1,395,000,000, condoning P 110,290,000.
- As United Overseas Bank of the Philippines on December 10, 1999: P 6,800,000,000, condoning P 1,546,540,000.
- Total assistance: P 8,595,000,000; Amount condoned: P 1,656,830,000.
- The condonation included waived buyback agreement, early buyback incentives, deferred and refunded interests, and abolition of PDIC interest spread.

2. **\*\*Keppel Monte Savings Bank Financial Assistance:\*\***

- On September 17, 1998, Notice of Suspension (NS) No. 98-10 (97) was issued suspending P 325,000,000 charged as expenses for rehabilitating KMSB.
- The PDIC purchased non-performing loans worth P 1.5 billion from KMSB. A portion of these loans (P 325,000,000) was found uncollectible and reclassified as expenses.
- The COA Supervising Auditor and CGS Director recommended the write-off of these loans due to collection uncertainties. However, the CGS Assistant Commissioner disagreed, suggesting that high costs and collection difficulties were insufficient bases for write-off.

3. **\*\*COA Proper's Ruling:\*\***

- Despite post-audit confirmations, the COA denied recommending condonation and write-offs:
- The condonation of P 1,656,830,000 for Westmont Bank included a principal amount which is not permissible.
- For KMSB, it was deduced that the loans weren't genuinely uncollectible.

4. **\*\*PDIC's Petitions:\*\***

- PDIC claimed that COA's prolonged decision-making constituted grave abuse of discretion and unreasonable delay.

- Substantively, PDIC asserted its Charter-given authority to condone liabilities, supported by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP).

**\*\*Issues:\*\***

1. Whether COA committed grave abuse of discretion in issuing the Notice of Finality of Decision (NFD).
2. Whether there was an unreasonable delay, amounting to grave abuse of discretion, by COA.
3. Whether COA committed grave abuse of discretion in denying the condonation/write-off.
4. Whether COA committed grave abuse of discretion in issuing Notices of Disallowance (NDs).
5. Whether COA committed grave abuse of discretion in holding the PDIC Board of Directors liable.

**\*\*Court's Decision:\*\***

The Supreme Court decided as follows:

1. **\*\*Issuance of NFD:\*\***
  - The issuance of NFD was deemed proper.
  - The absence of a Supreme Court-issued injunction allowed the COA's decision to reach finality post the 30-day period.
2. **\*\*Inordinate Delay Allegations:\*\***
  - The alleged delays by COA were evaluated against the complexity of the case, taking into account numerous transactions dating back to the 1990s.
  - Delays attributed to factual and legal challenges did not constitute "inordinate delay" based on various established criteria.
  - PDIC also failed to timely invoke its right to speedy disposition.
3. **\*\*COA's Authority to Issue Recommendations:\*\***
  - COA had the authority to issue recommendations and oversee the condonation and release of claims, underpinned by Section 36 of PD No. 1445 and Executive Order No. 292.
  - The COA was mandated by Presidential Decree and the Administrative Code of 1987 to participate in such decisions, reinforcing the role of Congressional and Executive checks on large-scale financial decisions by GOCCs like PDIC.
4. **\*\*Factual Findings on Condonations and Write-Offs:\*\***
  - COA's conclusions were based on detailed audits and factual analysis.

- The Court stressed the imperative for PDIC to follow statutory guidelines for condonations or write-offs, which include securing appropriate government authorizations.

5. **Liability of the PDIC Board:**

- The PDIC Board's overt negligence in disregarding mandatory statutory provisions led to bad faith in its dealings.  
- COA's holding the Board liable was justified based on established jurisprudence regarding gross negligence and malice.

**Doctrine:**

1. Government claims or liabilities involving significant amounts require recommendation from COA and final approval by Congress and the President.
2. Allegations of delay must be evaluated against factors including the length of delay, reasons for delay, and prejudice suffered by the party.
3. COA's factual findings related to audits merit significant deference absent clear abuse of discretion or malfeasance.

**Class Notes:**

1. **Elements of Government Claims:**

- Nature of the claim or liability.  
- Statutory authority for compromise/condonation.  
- Due governmental approvals (COA, President, Congress).

2. **COA's Role:**

- Jurisdiction over financial audit and settling accounts.  
- Mandate to recommend or deny government's financial decisions.

3. **Procedural Protections:**

- Importance of timely invoking rights, such as speedy disposition.  
- Balancing test applied in determining "speedy disposition."

4. **Sections/Citations:**

- Section 36 of PD No. 1445.  
- Section 20, Chapter IV, Subtitle B, Title I, Book V, EO No. 292.  
- Section 7, Article IX-A of the 1987 Constitution.  
- Decision in *Philippine Deposit Insurance Corporation v. Commission on Audit* (570 Phil 79).

**\*\*Historical Background:\*\***

The case touches upon the historical financial assistance programs deployed for distressed banking institutions in the Philippines, particularly during financial challenges faced by banks in the 1990s. The case underscores the fiscal oversight exerted by COA, demonstrating the evolving checks and balances within the Philippine government's financial monitoring mechanisms.