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cause in writing within ten (10) days from notice why he should not be punished for indirect contempt of court for degrading the judicial office of Associate Justice Miraflor Punzalan-Castillo, and for interfering with the due performance of her work for the Judiciary.

SO ORDERED.

Carpio[*] (*Acting C.J.*), *Velasco, Jr., Leonardo-de Castro, Peralta, Bersamin, del Castillo, Leonen, Jardeleza, Caguioa, Tijam,* and *Gesmundo, JJ.,* concur.

Perlas-Bernabe and *Reyes, Jr., JJ.,* no part.

Sereno, C.J., on leave.

EN BANC

[G.R. No. 171101. April 24, 2018]

HACIENDA LUISITA INCORPORATED, *petitioner,* **LUISITA INDUSTRIAL PARK CORPORATION and RIZAL COMMERCIAL BANKING CORPORATION**, *petitioners-in-intervention, vs.* **PRESIDENTIAL AGRARIAN REFORM COUNCIL; SECRETARY NASSER PANGANDAMAN OF THE DEPARTMENT OF AGRARIAN REFORM; ALYANSA NG MGA MANGGAGAWANG BUKID NG HACIENDA LUISITA, RENE GALANG, NOEL MALLARI, and JULIO SUNIGA and his SUPERVISORY GROUP OF THE HACIENDA LUISITA, INC. and WINDSOR ANDAYA,** *respondents*.

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[*] Acting Chief Justice per Special Order No. 2539 dated 28 February 2018.

SYLLABUS

1. **TAXATION; INCOME TAXATION; TO CLARIFY THE MEANING OF "LEGITIMATE CORPORATE EXPENSES", THE COURT REFERRED TO THE DEFINITION OF ORDINARY AND NECESSARY EXPENSES USED FOR TAXATION PURPOSES; NECESSARY EXPENSE IS WHERE THE EXPENDITURE IS APPROPRIATE AND HELPFUL IN THE DEVELOPMENT OF THE TAXPAYER'S BUSINESS; ORDINARY EXPENSE CONNOTES A PAYMENT WHICH IS NORMAL IN RELATION TO THE BUSINESS OF THE TAXPAYER AND THE SURROUNDING CIRCUMSTANCES.—** As to the meaning of the term "legitimate corporate expenses," the Court's January 28, 2014 Resolution likewise clarified it by referring to the definition of "ordinary and necessary expenses" used for taxation purposes, viz: As regards the meaning of "legitimate corporate expenses," We refer to the definition of "ordinary and necessary expenses" used for taxation purposes. Thus: Ordinarily, an expense will be considered 'necessary' where the expenditure is appropriate and helpful in the development of the taxpayer's business. It is 'ordinary' when it connotes a payment which is normal in relation to the business of the taxpayer and the surrounding circumstances. The term 'ordinary' does not require that the payments be habitual or normal in the sense that the same taxpayer will have to make them often; the payment may be unique or non-recurring to the particular taxpayer affected. x x x Assuming that the expenditure is ordinary and necessary in the operation of the taxpayer's business, the answer to the question as to whether the expenditure is an allowable deduction as a business expense must be determined from the nature of the expenditure itself, which in turn depends on the extent and permanency of the work accomplished by the expenditure.

2. **REMEDIAL LAW; CIVIL PROCEDURE; JUDGMENTS; EXECUTION AND SATISFACTION OF JUDGMENT; DECISION AND RESOLUTION OF THE COURT, FULLY COMPLIED WITH IN CASE AT BAR.—** To sum up, all three members of the audit panel have determined that the legitimate corporate expenses of HLI for the years 1998 up to 2011, coupled with the taxes and expenses related to the sale

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and the 3% share already distributed to the FWBs, far exceed the proceeds of the sale of the adverted 580.51-hectare lot. In net effect, there is no longer any unspent or unused balance of the sales proceeds available for distribution.

APPEARANCES OF COUNSEL

Roxas Delos Reyes Laurel Rosario & Leagogo Magdangal B. Elma, Gener E. Asuncion and *Anronio A. Merelos* for Hacienda Luisita Incorporated.

Jorge Cesar M. Sandiego and *Poblador Bautista Reyes Law Firm* for petitioner-intervenors.

Law Firm of Diaz Del Rosario & Associates for collaborating counsel for petitioner-intervenor RCBC.

The Solicitor General for public respondents.

Public Interest Law Center for respondent R. Galang and Ambala.

Zambrano & Gruba Law Offices for Navarro Amper & Co.

Carmelito M. Santoyo for Alyansa ng Mga Manggagawang Bukid ng Hacienda Luisita, United Luisita Workers and Supervisory Group of Hacienda Luisita, Inc.

Edgar DL. Bernal, Christian S. Monsod and *Marlon J. Manuel* for Farm Peace Foundation, Inc.

R E S O L U T I O N

VELASCO, JR., *J.*:

This treats of the "*Motion for Execution of the 05 July 2011 Decision*" interposed by respondents Noel Mallari and Windsor Andaya.[1]

As a backgrounder, in the *fallo* of its underlying Decision of July 5, 2011, the Court directed petitioner Hacienda Luisita Incorporated (HLI) to, among other things, pay the 6,296 qualified farm-worker beneficiaries (FWBs) of the hacienda

[1] *Rollo*, Vol. 216.

the unspent or unused balance of the proceeds of the sale of the 580.51-hectare lot received by the company, viz:

> HLI is directed to pay the 6,296 FWBs the consideration of PhP500,000,000 received by it from Luisita Realty, Inc. for the sale to the latter of 200 hectares out of the 500 hectares covered by the August 14, 1996 Conversion Order, the consideration of PhP750,000,000 received by its owned subsidiary, Centennary Holdings, Inc. for the sale of the remaining 300 hectares of the aforementioned 500-hectare lot to Luisita Industrial Park Corporation, and the price of PhP80,511,500 paid by the government through the Bases Conversion Development Authority for the sale of the 80.51-hectare lot used for the construction of the SCTEX road network**. From the total amount of PhP1,330,511,500 (PhP500,000,000 + PhP750,000,000 + PhP80,511,500 = PhP1,330,511,500) shall be deducted the 3% of the total gross sales from the production of the agricultural land and the 3% of the proceeds of said transfers that were paid to the FWBs, the taxes and expenses relating to the transfer of titles to the transferees, and the expenditures incurred by HLI and Centennary Holdings, Inc. for legitimate corporate purposes**. For this purpose, DAR is ordered to engage the services of a reputable accounting firm approved by the parties to audit the books of HLI and Centennary Holdings, Inc. to determine if the PhP1,330,511,500 proceeds of the sale of the three (3) aforementioned lots were used or spent for legitimate corporate purposes. **Any unspent or unused balance as determined by the audit shall be distributed to the 6,296 original FWBs**.[2]

On November 22, 2011, the Court, acting on several incidents, issued a Resolution denying, in the main, petitioner's motion for reconsideration and standing firm in its Decision of July 5, 2011. The dispositive portion of the Court's Resolution reads in full as follows:

> **WHEREFORE**, the *Motion for Partial Reconsideration* dated July 20, 2011 filed by public respondents Presidential Agrarian Reform Council and Department of Agrarian Reform, the *Motion for Reconsideration* dated July 19, 2011 filed by private respondent *Alyansa ng mga Manggagawang Bukid sa Hacienda Luisita*, the *Motion for Reconsideration* dated July 21, 2011 filed by respondent-intervenor

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[2] Emphasis supplied.

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Farmworkers Agrarian Reform Movement, Inc., and the *Motion for Reconsideration* dated July 22, 2011 filed by private respondents Rene Galang and AMBALA are **PARTIALLY GRANTED with respect to the option granted to the original farmworker-beneficiaries of Hacienda Luisita to remain with Hacienda Luisita, Inc.**, which is hereby **RECALLED** and **SET ASIDE**. The *Motion for Clarification and Partial Reconsideration* dated July 21, 2011 filed by petitioner HLI and the *Motion for Reconsideration* dated July 21, 2011 filed by private respondents Noel Mallari, Julio Suniga, Supervisory Group of Hacienda Luisita, Inc. and Windsor Andaya are **DENIED**.

The *fallo* of the Court's July 5, 2011 Decision is hereby amended and shall read:

PARC Resolution No. 2005-32-01 dated December 22, 2005 and Resolution No. 2006-34-01 dated May 3, 2006, placing the lands subject of HLI's SDP under compulsory coverage on mandated land acquisition scheme of the CARP, are hereby **AFFIRMED** with the following modifications:

All salaries, benefits, the 3% of the gross sales of the production of the agricultural lands, the 3% share in the proceeds of the sale of the 500-hectare converted land and the 80.51-hectare SCTEX lot and the homelots already received by the 10,502 FWBs composed of 6,296 original FWBs and the 4,206 non-qualified FWBs shall be respected with no obligation to refund or return them. The 6,296 original FWBs shall forfeit and relinquish their rights over the HLI shares of stock issued to them in favor of HLI. The HLI Corporate Secretary shall cancel the shares issued to the said FWBs and transfer them to HLI in the stocks and transfer book, which transfers shall be exempt from taxes, fees and charges. The 4,206 non-qualified FWBs shall remain as stockholders of HLI.

DAR shall segregate from the HLI agricultural land with an area of 4,915.75 hectares subject of PARC's SDP-approving Resolution No. 89-12-2 the 500-hectare lot subject of the August 14, 1996 Conversion Order and the 80.51-hectare lot sold to, or acquired by, the government as part of the SCTEX complex. After the segregation process, as indicated, is done, the remaining area shall be turned over to DAR for immediate land distribution to the original 6,296 FWBs or their successors-in-interest which will be identified by the DAR. The 4,206 non-qualified FWBs are not entitled to any share in the land to be distributed by DAR.

HLI is directed to pay the original 6,296 FWBs the consideration of PhP500,000,000 received by it from Luisita Realty, Inc. for the sale to the latter of 200 hectares out of the 500 hectares covered by the August 14, 1996 Conversion Order, the consideration of PhP750,000,000 received by its owned subsidiary, Centennary Holdings, Inc., for the sale of the remaining 300 hectares of the aforementioned 500-hectare lot to Luisita Industrial Park Corporation, and the price of PhP80,511,500 paid by the government through the Bases Conversion Development Authority for the sale of the 80.51-hectare lot used for the construction of the SCTEX road network. From the total amount of PhP1,330,511,500 (PhP500,000,000 + PhP750,000,000 + PhP80,511,500 = PhP1,330,511,500) shall be deducted the 3% of the proceeds of said transfers that were paid to the FWBs, the taxes and expenses relating to the transfer of titles to the transferees, and the expenditures incurred by HLI and Centennary Holdings, Inc. for legitimate corporate purposes. For this purpose, DAR is ordered to engage the services of a reputable accounting firm approved by the parties to audit the books of HLI and Centennary Holdings, Inc. to determine if the PhP1,330,511,500 proceeds of the sale of the three (3) aforementioned lots were actually used or spent for legitimate corporate purposes. Any unspent or unused balance and any disallowed expenditures as determined by the audit shall be distributed to the 6,296 original FWBs.

HLI is entitled to just compensation for the agricultural land that will be transferred to DAR to be reckoned from November 21, 1989 which is the date of issuance of PARC Resolution No. 89-12-2. DAR and LBP are ordered to determine the compensation due to HLI.

DAR shall submit a compliance report after six (6) months from finality of this judgment. It shall also submit, after submission of the compliance report, quarterly reports on the execution of this judgment within the first 15 days after the end of each quarter, until fully implemented.

The temporary restraining order is lifted.

SO ORDERED.[3]

The July 5, 2011 Decision of the Court, as affirmed with modification in its November 22, 2011 Resolution, became final

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[3] Emphasis supplied.

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and executory on April 24, 2012. Thus, for purposes of determining the actual amount that may be distributed to the qualified FWBs, the Court issued a Resolution dated January 28, 2014 appointing a panel of three accounting firms. The dispositive portion of the Resolution provides:

WHEREFORE, premises considered, the following persons/entities are hereby APPOINTED as members of the panel tasked to conduct the special audit as ordered by the Court in Our July 5, 2011 Decision, viz.:

1. Ocampo, Mendoza, Leong and Lim (OMLL);
2. Ms. Carissa May Pay-Penson, CPA; and
3. Navarro Amper & Co. (Deloitte)

The panel shall **DETERMINE** the **legitimate corporate expenses** incurred by HLI from the respective dates of receipt by HLI of the payments for the properties until Our July 5, 2011 Decision became final and executory, which expenses shall be deducted from the PhP1,330,511,500 proceeds of the sale of the 580.51 hectare HLI property.

The panel is hereby given a period of ninety (90) days to complete the audit.

Upon completion of the special audit, the panel shall immediately SUBMIT to the Court its report/recommendation thereon.

The cost of the audit shall be shouldered by HLI.

The audit panel was appointed to determine if the ₱1,330,511,500 proceeds of the sale of the lots were actually used or spent for legitimate corporate purposes by HLI. Given that, as previously stated, any unspent or unused balance and any disallowed expenditures as determined by the panel shall be distributed to the 6,296 FWBs. Essentially, to arrive at what shall be deemed the unspent or unused balance of the sales proceeds, the following are to be deducted therefrom:

1. 3% of the proceeds that were already paid to the FWBs;
2. tax expenses relating to the transfer of titles to the transferees; and
3. expenditures incurred by the Company for legitimate corporate expenses.

As to the meaning of the term "legitimate corporate expenses," the Court's January 28, 2014 Resolution likewise clarified it by referring to the definition of "ordinary and necessary expenses" used for taxation purposes, viz:

> As regards the meaning of "legitimate corporate expenses," We refer to the definition of "ordinary and necessary expenses" used for taxation purposes. Thus:
>
> > Ordinarily, an expense will be considered 'necessary' where the expenditure is appropriate and helpful in the development of the taxpayer's business. It is 'ordinary' when it connotes a payment which is normal in relation to the business of the taxpayer and the surrounding circumstances. The term 'ordinary' does not require that the payments be habitual or normal in the sense that the same taxpayer will have to make them often; the payment may be unique or non-recurring to the particular taxpayer affected.
> >
> > x x x Assuming that the expenditure is ordinary and necessary in the operation of the taxpayer's business, the answer to the question as to whether the expenditure is an allowable deduction as a business expense must be determined from the nature of the expenditure itself, which in turn depends on the extent and permanency of the work accomplished by the expenditure.

On September 13, 2016, for the apparent lack of interest of the accounting firm OMLL, the Court resolved to appoint Reyes Tacandong & Co. (RT&Co.) as a member of the audit panel. In the same Resolution, the Court ordered that the audit panel shall, by a majority vote, decide on the matters pertaining to the conduct of the audit and to submit a monthly report of their audit and a Final Report on or before the lapse of the ninety (90)-day period.

Per its reports, the audit panel convened on April 19, 2017 and agreed on the following matters:

1. A common scope of work, work program, process, workflow and client participation list;
2. Each member of the audit panel shall perform the procedures agreed upon independently and shall therefore

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issue a separate report based on the procedures performed;[4] and

3. Other matters including communication protocols, engagement timeline and reporting requirements.[5]

REYES TACANDONG & CO.'S FINAL REPORT

By September 15, 2017, RT&Co. submitted its Final Report and summarized its findings with the following table:

Inputs	**Amount**
Proceeds from sale of land:	
Sale to LRC	₱500,000,000
Sale to LIPCO	750,000,000
Sale to BCDA	80,511,500
Total Proceeds	**1,330,511,500**
Less Disbursements Directly Related to the Sale:	
Taxes Related to the sale of parcels of land:	
Sale to LRC	15,000,000
Sale to LIPCO	44,190,000
Sale to BCDA	4,830,690
3% share of FWB on the proceeds	39,915,345
Net Proceeds after Taxes and 3% Share of FWB	**1,226,575,465**
Legitimate Corporate Expenses:	
Claimed as deduction in Income Tax Returns (ITR) ₱4,309,508,157	
Already claimed as disbursements directly related to the sale above (29,746,035)	
	4,279,762,122
Net Disbursements after Taxes, 3% Share of FWB and Legitimate Corporate Expenses	**(3,053,186,657)**
Revenue from Operations	2,404,396,492
Net Disbursements	**(₱648,790,165)**

[4] Per NA&Co., the engagement was undertaken to the extent possible and subject to the limitations, in accordance with the requirements of Philippine Standard on Related Services (PSRS) 4400, *Engagements to Perform Agreed-Upon Procedures*.

[5] RT&Co. Final Report, p. 4.

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Explaining how it came up with the "legitimate corporate expenses" amounting to ₱4,279,762,122, RT&Co. outlined the procedures it adopted and wrote in its Final Report that:

The procedures performed and the results and findings are discussed below: The documents supporting the results and findings are filed in Annex E.

a. We obtained and summarized the Company's expense claimed as deductions in the ITR for the fiscal years ended June 30, 1998 to 2011.

We requested copies of the ITR for the fiscal years ended June 30, 1998 to 2011 and were provided with the ITR for fiscal years ended June 30, 1998, 2003 to 2005 and 2007 to 2011. Because the ITR for other fiscal years are not available, we referred to the AFS to identify corporate expenses that are deductible for income tax purposes.

Corporate expenses deducted for income tax purposes totaled ₱4,309,508,157 for the fiscal years ended June 30, 1998 to 2011 as follows:

As Disclosed in the ITR and FS	Amount
Cost of Sales	₱2,864,060,868
General and administrative expenses	1,001,102,071
Other charges	714,895,626
Less nondeductible expenses:	18,990,626
Provision for doubtful accounts	216,413,155
Retirement expense	
Provision for decline of value of investment	13,500,000
Impairment loss on investment	12,100,000
Interest Expense	1,337,260
Unrealized foreign exchange loss	541,555
Unallowable representation expense	549,800
Nondeductible expense	7,118,012
Total	₱4,309,508,157

We did not note any exception.

b. We compared the corporate expenses claimed in the ITR against corporate expenses in the AFS.

We requested and obtained the AFS of the Company for the fiscal years ended June 30, 1998 to 2011. We summarized the

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expenses reported in the AFS in the periods under consideration. Furthermore, we compared the expenses reported in the AFS against the corporate expenses disclosed in the ITR.

We did not note any exception.

c. *We assessed if the expense claimed as deductions in the ITR can qualify as legitimate corporate expenses as defined by the SC*

x x x x x x x x x

Based on the definition above, all corporate expenses claimed as deductions in the ITR are therefore qualified as legitimate corporate expenses in computing the net disbursements.

Moreover, we noted that there were taxes related to the sale and 3% FWB share on the proceeds that were not presented net from the gain on sale and hence, were reported as part of the corporate expenses. Accordingly, we excluded these from the legitimate corporate expenses as these have been already claimed as disbursements directly related to the sale. Details are as follows:

	Amount
3% share of FWB in the sale – sale to LIPCO and BCDA	₱24,915,345
Taxes Related to the sale – sale to LIPCO	4,830,690
	₱29,746,035

d. *We selected legitimate corporate expenses for testing from all* disbursements amounting to at least *₱100,000 for the fiscal years ended June 30, 1998 to 2011. We vouched these disbursements to the check vouchers, payable vouchers and source documents. We, further, determined if the disbursements were cleared by the bank.*

Sample Selection

Due to the significant number of transactions in fiscal years 1998 to 2011, we only select disbursements exceeding P100,000 for vouching. We excluded disbursements for the payment of loans because these do not meet the definition of legitimate corporate expenses.

Matching of Disbursements to Legitimate Corporate Expense Categories

Disbursements vouched relating to legitimate corporate expenses aggregated ₱3,563,879,525. We checked the account classification against entries in the subsidiary ledgers. Disbursements which we cannot check the account classification because the subsidiary ledgers are not available, were classified to a legitimate expense account based on the nature of the disbursements.

Legitimate corporate expense vouched according to expense account classification are as follows:

	Per ITR and FS	Amounts vouched	% Vouched
Cost of Sales			
Planting and cultivating	₱1,290,138,754	₱1,206,950,253	93.55%
Barrio administration	782,383,405	748,219,960	95.63%
Harvesting and transport	434,854,199	350,658,061	80.64%
Trash operations	143,956,890	101,097,725	70.23%
Production share	72,088,656	62,002,546	86.01%
Aquaculture	64,130,160	43,504,402	67.84%
Others	32,602,833	28,414,769	87.15%
	2,820,154,897	2,540,847,716	90.10%
General and Administrative Expenses			
General administration	684,560,618	501,818,738	73.31%
Equipment group services	29,285,219	29,114,074	99.42%
Farm administration	44,508,278	43,442,688	97.61%
	758,354,115	574,375,500	75.74%
Other charges			
Interest expense	692,894,152	448,656,309	64.75%
Bank charges	8,358,958	—	0.00%
	701,253,110	448,656,309	63.98%
Total	**₱4,279,762,122**	**₱3,563,879,525**	**83.27%**

The nature of the legitimate corporate expenses vouched is as follows:

Nature	Amount Vouched	% of Total
Payroll	₱1,190,119,697	33.39%
Materials and supplies	1,086,855,792	30.50%
Interest payments	446,719,470	12.53%
Employee benefits	420,799,589	11.81%
Taxes and licenses	87,671,132	2.46%
	70,220,924	1.97%

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Tractor services	62,002,546	1.74%
Production share	19,588,005	0.55%
Medical expense	17,323,395	0.49%
Retrenchment pay	16,489,576	0.46%
Hauling services	10,701,165	0.30%
Insurance	10,399,074	0.29%
Cutting and loading service	8,884,496	0.25%
Utilities	8,333,315	0.23%
Professional fees	8,307,484	0.23%
School bus allowance	99,463,865	2.79%
Others		
Total	**₱3,563,879,525**	**100.00%**

Classification of Source Documents

We classified the vouched legitimate corporate expenses according to source documents as follows:

i. Payroll registers – internally-generated report that serves as the primary document supporting the salaries of the farmworkers.

ii. Third Party Documents – external source documents issued by third-party suppliers, including but not limited to official receipts, invoices and statements of account.

iii. Accounting Documents and Other Internal Accounting Records – disbursements are classified to this category if the supporting documents are merely check vouchers, payable vouchers, request for payment and/or internally generated document, other than payroll registers.

Results of our testing are as follows:

	VOUCHED				TOTAL LEGITIMATE CORPORATE EXPENSES
	Payroll Registers	Third Party Source Documents	Accounting Documents	TOTAL VOUCHED	
Cost of Sale					
Planting and Cultivating	₱401,192,257	₱216,404,747	₱589,353,249	₱1,206,950,253	₱1,290,138,754
Barrio administration	216,796,327	44,059,480	487,364,153	748,219,960	782,383,405
Harvesting and transport	273,433,975	3,561,892	73,662,194	350,658,061	434,854,199
Trash operations	31,193,494	6,993,319	62,910,912	101,097,725	143,956,890
Production share	21,906,427	-	40,096,119	62,002,546	72,088,656
Aquaculture	9,274,072	6,206,776	28,023,554	43,504,402	64,130,160
Others	2,508,561	2,432,057	23,474,151	28,414,769	32,602,833
	956,305,113	**279,658,271**	**1,304,884,332**	**2,540,847,716**	

General and Administrative					
General and administration	48,626,016	119,932,566	333,260,156	501,818,738	684,560,618
Equipment Group Services	35,520,525	216,416	7,705,747	43,442,688	44,508,278
Farm Administration	19,548,307	511,407	9,054,360	29,114,074	29,285,219
	103,694,848	**120,660,389**	**350,020,263**	**574,375,500**	**758,354,115**
Other Charges					
Interest Expense	—	368,952,229	79,704,080	448,656,309	692,894,152
Bank Charges	—	—	—	—	8,358,958
	—	**368,952,229**	**79,704,080**	**448,656,309**	**701,253,110**
Total	**₱1,059,999,961**	**₱769,270,889**	**₱1,734,608,675**	**₱3,563,879,525**	**₱4,279,762,122**

Source documents tested were original copies and duly signed and approved by the appropriate parties.

Tracing to Bank Statements

Summary of the bank transactions for the fiscal years ended June 30, 1998 to 2011 are available only for the Company's bank accounts in United Coconut Planters Bank (UCPB)-Tarlac and Makati Branches and Metrobank-Makati Branch. However, the summary of the bank transactions for the Metrobank account was only received in September 6, 2017 and was excluded in the tracing.

We traced the legitimate corporate expense vouched to the bank statements. Results are as follows:

	Legitimate Corporate Expense Vouched	**Traced to Bank Statements**
Cost of Sales		
Planting and cultivating	₱1,206,950,253	₱444,459,041
Barrio administration	748,219,960	341,767,266
Harvesting and transport	350,658,061	211,889,577
Trash Operations	101,097,725	50,221,885
Production share	62,002,546	59,628,754
Aquaculture	43,504,402	16,869,453
Others	28,414,769	10,793,830
	2,540,847,716	**1,135,629,806**
General and Administrative		
General and administration	501,818,738	164,656,037
Equipment Group Services	43,442,688	26,522,736
Farm Administration	29,114,074	19,164,614
	574,375,500	**210,343,387**

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Other Charges		
Interest Expense	448,656,309	108,501,409
Bank Charges	—	—
	448,656,309	**108,501,409**
Total	**₱3,563,879,525**	**₱1,454,474,602**
% to Total	**100.00%**	**40.81%**

Moreover, legitimate corporate expenses vouched to internal accounting documents and records only, were traced to the bank statements as disbursements. Results are as follows:

	Legitimate Corporate Expense Vouched to Internal Accounting Records and Documents Only	**Traced to Bank Statements**
Cost of Sales		
Planting and cultivating	₱589,353,249	₱174,640,533
Barrio administration	487,364,153	93,804,398
Harvesting and transport	73,662,194	53,730,554
Trash Operations	62,910,912	28,471,959
Production share	40,096,119	20,968,280
Aquaculture	28,023,554	10,295,250
Others	23,474,151	7,298,910
	1,304,884,332	**₱489,209,884**
General and Administrative		
General and administration	333,260,156	229,998,878
Equipment Group Services	9,054,360	6,667,435
Farm Administration	7,705,747	7,606,665
	350,020,263	**244,272,978**
Other Charges		
Interest Expense	79,704,080	43,752,879
Bank Charges	—	—
	79,704,080	**43,752,879**
Total	**₱1,734,608,675**	**₱777,235,741**
% to Total	**100.00%**	**44.81%**

e. *We obtained a listing of all expenses for fiscal years 1998 to 2011 from the various registers and agreed the amounts in the listing with the AFS.*

We were not provided a listing of all expenses for fiscal years 1998 to 2011. In lieu of the listing, we were provided with the monthly subsidiary ledgers in the periods under consideration.

We summarized the monthly subsidiary ledgers for the fiscal years ended June 30, 1998 to 2011 and agreed the summarized expenses with the amounts reflected in the AFS. We noted differences aggregating to ₱37.3 million for the fiscal years ended June 30, 2007 and 2008. The differences were attributed to audit adjustments not posted in the Company's books of accounts.

f. We summarized expenses incurred by CHI by vouching to the AFS.

The following are the expenses incurred for the fiscal years 1998 to 2011.

	Amount
Taxes and Licenses	₱10,126,103
Pre-operating expenses	1,199,097
Professional fees	91,500
Transportation and travel	13,748
Others	38,257
	₱11,468,705

We were not able to obtain documents supporting the abovementioned expenses and thus, we cannot ascertain their validity.

NAVARRO AMPER & CO.'S FINAL REPORT

On September 18, 2017, the Court received the Final Report of NA&Co. The figure of ₱1,710,494,333 appears to represent the legitimate corporate expenses of petitioner HLI for the fiscal years relevant to the case. NA&Co. summarized its findings, thusly:

Note [d] – Legitimate Corporate Expense

Procedures Performed

As discussed under Section I (C), there was no separate and specific accounting and identification of expenses to which the proceeds from the sale of land properties were used. Following the Supreme Court's resolution deducting the legitimate corporate expenses from the proceeds, we asked the company to provide us with the schedule of those expenses. In the absence of the schedule, we

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then followed the procedures we planned (which was agreed by the Panel) to identify the legitimate corporate expenses considering the definition of the Supreme Court of the "legitimate corporate expenses."

Accordingly, we obtained from the Company all relevant accounting records such as cash vouchers, payable vouchers, journal vouchers, cash book records, subsidiary ledgers, general ledgers and other related attachments thereto, covering the period of the Engagement.

To the extent possible, we selected, traced and sighted the expense amounts from the cash books to check vouchers, payable vouchers and related attachments thereto, as well to the bank statements.

We also traced the transactions to the related subsidiary ledger, then subsidiary ledger total to the general ledger and ultimately to the financial statements and income tax returns of the periods covered by the Engagement.

Summary Results and Findings

Based on the procedures performed, the total legitimate corporate expenses sighted and traced through the supporting documents amounted to ₱1,710,494,333 as summarized below:

TYPE OF DOCUMENT	Original	Photocopy	Total
External Documents Third Party	**₱79,887,529**	**₱96,750,835**	**₱176,638,364**
Internal Documents			
Payroll Register	942,015,426	60,942,020	1,002,957,446
Payable Voucher	61,952,958	10,490,201	72,443,159
Request for Payment/ Petty Cash Voucher	160,654,199	21,427,804	182,082,003
Transactions Summary	219,345,895	40,298,935	259,644,830
Material Receipt	341,316	17,229	358,545
Internal Invoice	15,844,630	252,356	16,369,986
Subtotal	**1,400,154,424**	**133,701,545**	**1,533,855,969**
Total	**₱1,480,041,953**	**₱230,452,380**	**₱1,710,494,333**
Percentage of Amount:			
traced to bank statements	*82.84%*	*46.30%*	*77.92%*
not traced to bank statements	*17.16%*	*53.70%*	*22.08%*
Total	*100.00%*	*100.00%*	*100.00*

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In performing the above procedures, we were able to trace and note payment of liabilities which may represent payment for accounts payable and accrued expenses. However, we were not able to verify the actual expense accounts charged when the liabilities and the accruals were recorded due to the following reasons:

a. Multiple invoices are paid in lump – It is difficult to trace the transactions to the ledgers/journal vouchers since there is no unique referencing; thus, it was impracticable to trace the liabilities to the underlying expense accounts.

b. Hospital bills – There are voluminous transactions with small amounts; hence, making it impracticable to trace;

c. Absence of subsidiary ledgers which would allow us to trace the recording of the expense.

Hence, we have not included those payments amounting to Php3,767,874,734 in the amount of legitimate corporate expenses presented as sighted and traced.

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Taking into account the amount of ₱1,710,494,333, as the legitimate corporate expenses of petitioner HLI, and all other amounts that shall be deducted from the proceeds of the sales per this Court's Decision, NA&Co. calculated what may be disbursed to the FWBs in the following manner:

		External Documents		Internal Documents	
Note	**Total**	**Original**	**Photocopy**	**Original**	**Photocopy**
[a] PROCEEDS FROM THE SALE					
LRC	**₱500,000,000**	₱500,000,000	₱ -	₱ -	₱ -
LIPCO	**750,000,000**	--	750,000,000	-	-
BCDA	**80,511,500**	25,680,810	54,830,690	-	-
	1,330,511,500	525,680,810	804,830,690	-	-
LESS DISBURSEMENTS					
[b] 3% Share of FWBs	**39,709,309**			39,709,309	-
[c] Taxes Related to land sold to:					
LRC	**18,750,000**	15,000,000	3,750,000	-	-
LIPCO	**55,440,000**	46,440,000	9,000,000	-	-
BCDA	**4,830,690**	—	4,830,690	-	-
	79,020,690	61,440,000	17,580,690	-	-
Subtotal	**118,729,999**	61,440,000	17,580,690	39,709,309	-

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[d] Legitimate Corporate Expenses	**1,710,494,333**	79,887,529	96,750,835	1,400,154,424	133,701,545
Total Expenses	**1,829,224,330**	141,327,529	114,331,525	1,439,863,733	133,701,545
NET PROCEEDS (DISBURSEMENTS)	**(₱498,712,830)**	₱384,353,281	₱690,499,165	₱1,439,863,733	(₱133,701,545)

CARISSA MAY PAY-PENSON'S FINAL REPORT

Pay-Penson who was nominated by the movants to be a member of the audit panel submitted her Final Report on September 29, 2017. In tabular form, she summarized her findings as follows:

	Document Grading				**Total in PHP**
	AA (External documents and disbursement traced through bank statements)	A (External documents and disbursement **not** traced through bank statements)	BB (Internal documents and disbursement traced through bank statements)	B (Internal documents and disbursement traced **not** through bank statements)	
		1,330,511,500			1,330,511,500
Taxes and Expenses		-79,020,462			-79,020,690
3% Share of FWBs		-34,740,462			-34,740,462
TOTAL PROCEEDS		**1,216,750,348**			**1,216,750,348**

Legitimate Corporate Expenses	AA	A	BB	B	**Total in PHP**
Cost of Growing Crops	83,381	145,299,091	368,974,416	503,093,071	1,017,449,959
Irrigation and Drainage	1,954,873	2,470,758	243,871,435	22,887,894	271,184,960
Planting and Cultivating Costs	2,457,132	91,023,881	55,928,765	27,069,669	176,479,447
Barrio Administration	763,170	4,899,381	102,311,272	22,956,548	130,930,371
Inventories	-	11,934,053	—	86,718,142	98,652,195
Trash Operations	199,599	559,671	33,236,326	2,751,342	36,746,938
Aquaculture	1,065,809	2,364,181	4,196,433	2,215,570	9,841,993
Indirect Expenses	--	506,810	—	1,491,949	1,998,759
General and Administrative	4,144,785	20,098,187	80,422,156	132,119,132	236,784,260
	10,668,749	**279,156,013**	**888,940,803**	**801,303,317**	**1,980,068,882**

To sum up, all three members of the audit panel have determined that the legitimate corporate expenses of HLI for the years 1998 up to 2011, coupled with the taxes and expenses

related to the sale and the 3% share already distributed to the FWBs, far exceed the proceeds of the sale of the adverted 580.51-hectare lot. In net effect, there is no longer any unspent or unused balance of the sales proceeds available for distribution.

WHEREFORE, premises considered, the July 5, 2011 Decision and November 22, 2011 Resolution of the Court insofar as it directed that "any unspent or unused balance and any disallowed expenditures as determined by the audit shall be distributed to the 6,296 original FWBs" are considered **FULLY COMPLIED WITH**.

SO ORDERED.

Leonardo-de Castro, Peralta, Bersamin, del Castillo, Perlas-Bernabe, Leonen, Caguioa, Martires, Tijam, Reyes, Jr., and *Gesmundo, JJ.,* concur.

Carpio (*Acting C.J.*), no part, prior inhibition.

Jardeleza, J., no part.

Sereno, C.J., on leave.

EN BANC

[G.R. No. 221029. April 24, 2018]

REPUBLIC OF THE PHILIPINES, *petitioner, vs.* **MARELYN TANEDO MANALO,** *respondent.*

SYLLABUS

1. CIVIL LAW; CIVIL CODE; EFFECT AND APPLICATION OF LAWS; TYPES OF DIVORCE; RULES RELATING