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Republic of the Philippines
Supreme Court
Manila

EN BANC

**CENTRAL
RECLAMATION
DEVELOPMENT
CORPORATION,**

**BAY
AND**

G.R. No. 252940

Present:

Petitioner,

GESMUNDO, C.J., Chairperson,
PERLAS-BERNABE,
LEONEN,
CAGUIOA,
HERNANDO,
LAZARO-JAVIER,
INTING,
ZALAMEDA,
LOPEZ, M.,
GAERLAN,
ROSARIO,
LOPEZ, J.,
DIMAAMPAO,
MARQUEZ, and
KHO, JR., JJ.

— versus —

**COMMISSION ON AUDIT
and the PHILIPPINE
RECLAMATION
AUTHORITY,**

Respondents.

Promulgated:

April 5, 2022

[Signature]

X-----X

DECISION

M. LOPEZ, J.:

The Court is not a legitimizer of violations of law.¹ What cannot be done directly cannot be done indirectly. This principle is elementary and does not need explanation. Certainly, if acts that cannot be legally done directly can

¹ *Strategic Alliance Development Corporation v. Raasack Securities Limited*, 622 Phil. 431, 543 (2009).

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be done indirectly, then all laws would be illusory.² These precepts guide the Court in resolving this petition for *certiorari*³ assailing the Decision⁴ of the Commission on Audit (COA) dated May 23, 2019 in COA CP Case No. 2010-350.⁵

ANTECEDENTS

On March 30, 1999, respondent Philippine Reclamation Authority (PRA), formerly Public Estates Authority (PEA), entered into an Amended Joint Venture Agreement⁶ (JVA) with petitioner Central Bay Reclamation and Development Corporation (Central Bay), formerly known as the Amari Coastal Bay and Development Corporation (AMARI), to develop three (3) reclaimed islands with a combined titled area of 157.84 hectares known as the “Freedom Islands” located at the southern portion of the Manila-Cavite Coastal Road, Parañaque City, and to reclaim about 592.15 hectares of foreshore and submerged areas of the Manila Bay. The agreement provided that Central Bay will acquire and own 77.34 hectares of the Freedom Islands and 290.156 hectares of still submerged areas of the Manila Bay. In a Decision⁷ dated July 9, 2002, this Court nullified the Amended JVA for violating Sections 2 and 3, Article XII of the 1987 Constitution which respectively prohibit the alienation of natural resources other than agricultural lands of the public domain, and the acquisition of private corporations of any kind of alienable land of the public domain, to wit:

The Regalian doctrine is deeply implanted in our legal system. Foreshore and submerged areas form part of the public domain and are inalienable. Lands reclaimed from foreshore and submerged areas also form part of the public domain and are also inalienable, unless converted pursuant to law into alienable or disposable lands of the public domain. Historically, lands reclaimed by the government are *sui generis*, not available for sale to private parties unlike other alienable public lands. Reclaimed lands retain their inherent potential as areas for public use or public service. Alienable lands of the public domain, increasingly becoming scarce natural resources, are to be distributed equitably among our ever-growing population. To insure such equitable distribution, the 1973 and 1987 Constitutions have barred private corporations from acquiring any kind of alienable land of the public domain. Those who attempt to dispose of inalienable natural resources of the State, or seek to circumvent the conditional ban on alienation of lands of the public domain to private corporations, do so at their own risks.

We can now summarize our conclusions as follows:

² *Civil Service Commission v. Cortes*, 734 Phil. 295, 299 (2014). See also *Tawang Multi-Purpose Cooperative v. La Trinidad Water District*, 661 Phil. 390, 398 (2011).

³ *Rollo*, pp. 3–39.

⁴ *Id.* at 44–61. Signed by Commissioners Jose A. Fabia and Roland C. Pondoc. Chairperson Michael G. Aguinaldo, no participation.

⁵ Docketed as Decision No. 2019-157. *Id.* at 44.

⁶ *Id.* at 89–114.

⁷ *Chavez v. Public Estates Authority*, 433 Phil. 506 (2002).

1. The 157.84 hectares of reclaimed lands comprising the Freedom Islands, now covered by certificates of title in the name of PEA, are *alienable lands of the public domain*. PEA may lease these lands to private corporations but may not sell or transfer ownership of these lands to private corporations. PEA may only sell these lands to Philippine citizens, subject to the ownership limitations in the 1987 Constitution and existing laws.

2. The 592.15 hectares of submerged areas of Manila Bay remain inalienable natural resources of the public domain until classified as alienable or disposable lands open to disposition and declared no longer needed for public service. The government can make such classification and declaration only after PEA has reclaimed these submerged areas. Only then can these lands qualify as agricultural lands of the public domain, which are the only natural resources the government can alienate. In their present state, the 592.15 hectares of submerged areas are *inalienable and outside the commerce of man*.

3. Since the Amended JVA seeks to transfer to AMARI, a private corporation, ownership of 77.34 hectares of the Freedom Islands, such transfer is void for being contrary to Section 3, Article XII of the 1987 Constitution which prohibits private corporations from acquiring any kind of alienable land of the public domain.

4. Since the Amended JVA also seeks to transfer to AMARI ownership of 290.156 hectares of still submerged areas of Manila Bay, such transfer is void for being contrary to Section 2, Article XII of the 1987 Constitution which prohibits the alienation of natural resources other than agricultural lands of the public domain. PEA may reclaim these submerged areas. Thereafter, the government can classify the reclaimed lands as alienable or disposable, and further declare them no longer needed for public service. Still, the transfer of such reclaimed alienable lands of the public domain to AMARI will be void in view of Section 3, Article XII of the 1987 Constitution which prohibits private corporations from acquiring any kind of alienable land of the public domain.

Clearly the Amended JVA violates glaringly Sections 2 and 3, Article XII of the 1987 Constitution. Under Article 1409 of the Civil Code, contracts whose "object or purpose is contrary to law," or whose "object is outside the commerce of men," are "inexistent and void from the beginning." The Court must perform its duty to defend and uphold the Constitution, and therefore declares the Amended JVA *null and void ab initio*.

x x x x

WHEREFORE, the petition is GRANTED. The Public Estates Authority and Amari Coastal Bay Development Corporation are PERMANENTLY ENJOINED from implementing the Amended Joint Venture Agreement which is hereby declared NULL and VOID *ab initio*.

SO ORDERED.⁸ (Emphases supplied)

Aggrieved, Central Bay moved for reconsideration. In a Resolution⁹ dated May 6, 2003, this Court denied the motion and affirmed the nullity of the JVA. However, the Court held that Central Bay is not precluded to recover from PEA the costs incurred in implementing the agreement prior to its declaration of nullity on a *quantum meruit* basis in the proper proceedings.¹⁰ Accordingly, Central Bay filed a petition for money claim against PRA before the COA in COA CP Case No. 2010-350. Central Bay sought to reimburse from PRA the total amount of ₱11,527,573,684.12.¹¹ Later, the parties submitted a joint motion for judgment based on a Compromise Agreement¹² where PRA offered to pay the incurred costs of ₱1,027,031,483.79 by transferring 102,703.15 square meters of reclaimed land to Central Bay's qualified assignee, *viz.*:

G. PRA is the sole and absolute owner of a piece of real property located in Barangay San Dionisio, Parañaque City with an area of One Hundred Two Thousand Seven Hundred Three and 15/100 square meters (102,703.15 sq.m.) which is a portion of the parcel of land covered by Transfer Certificate of Title No. 7309 with a current appraisal of [₱]10,000 per square meter.

H. Central Bay and PRA agreed to amicably settle the PRA validated claim and all other claims subject of the COA CP Case No. 2010-350 **by way of conveyance of the aforesaid Property.**

The parties, duly assisted by their respective counsel, have thus entered into this Compromise Agreement (Agreement) under the following terms and conditions:

1. **SUBJECT PROPERTY:** By way of full settlement of the COA CP Case No. 2010-350 filed by Central Bay against the PRA, the latter has offered to reimburse to the former the amount of [₱]1,027,031,483.79 in the form of reclaimed land at [the] appraised value of [₱]10,000.00 per square meter and Central Bay has accepted PRA's offer[.] **Hence, PRA shall cede, transfer and convey to Central Bay's Qualified Assignee (defined herein as a Filipino citizen who is qualified to own reclaimed lands under existing laws, rules and regulations), a reclaimed land located in Barangay San Dionisio, Para[ñ]aque City with an area of One Hundred Two Thousand Seven Hundred Three and 15/100 square meters (102,703.15 sq.m.)** which is a portion of the parcel of land covered by Transfer Certificate of Title No. 7309, the provisional technical description is attached as Annex E.

2. **DEED OF CONVEYANCE:** PRA shall execute a Deed of Conveyance in favor of Central Bay's Qualified Assignee upon approval of this Agreement by the Commission on Audit.

⁸ Id. at 589–592.

⁹ *Chavez v. Public Estates Authority*, 451 Phil. 1 (2003).

¹⁰ Id. at 52.

¹¹ *Rollo*, p. 44.

¹² Id. at 145–150.

3. TAXES: Except for documentary stamp tax related to the execution of the Deed of Conveyance in favor of Central Bay's Qualified Assignee, the registration fees, tax on real property transfer and other expenses for the transfer of the Property which shall be for the account of Central Bay's Qualified Assignee, all other taxes in connection with the conveyance shall be borne by PRA.

Considering the effect on PRA's cash flow of the large amount of VAT to be paid by PRA, it is hereby agreed that the corresponding VAT for the SUBJECT PROPERTY in the amount of [P]123,243,778.05, which has an equivalent land area of 12,324.38 square meters, shall be conveyed to Central Bay's Qualified Assignee subject to existing laws, rules and regulations. The VAT arising from the conveyance of the SUBJECT PROPERTY and the VAT equivalent land area of 12,324.38 square meters shall be paid in case by Central Bay to BIR.¹³ (Emphases supplied)

In a Decision¹⁴ dated May 23, 2019, the COA disapproved the Compromise Agreement and ratiocinated that the stipulation to transfer the reclaimed land from PRA to Central Bay's qualified assignee is a circumvention of the Court's Decision which declared void the Amended JVA for violating the constitutional prohibition against private corporations from acquiring any kind of alienable land of the public domain except through a lease. Anent the money claims, the COA found that Central Bay is entitled to reimburse only the amount of ₱714,937,790.29 representing advance payment for the reclamation and project development. Yet, the COA denied the money claims consisting of the squatter relocation cost, additional item of advances, and professional fees for lack of supporting documents. Similarly, the COA refused to award interest and bank charges on loans because the government is not privy to Central Bay's transaction with any financial institution. The COA likewise excluded the alleged foreign exchange losses since they are part of Central Bay's investment risk as project financier. The COA also held that the government is not liable for the pre-operating and operating expenses because they are not directly related to the project. Lastly, the COA declined to impose legal interest on the allowed money claims because it is contrary to the principle of *quantum meruit* which permits recovery of reasonable value regardless of any agreement,¹⁵ thus:

WHEREFORE, premises considered, the Petition for Money Claim of Central Bay Reclamation and Development Corporation against the Philippine Reclamation Authority, for reimbursement of expenses in the implementation of the Reclamation Project along the Manila-Cavite Coastal Road, is PARTIALLY GRANTED in the amount of [P]714,937,790.29, subject to availability of funds and the usual accounting and auditing rules and regulations.¹⁶

¹³ Id. at 146-147.

¹⁴ Id. at 44-61.

¹⁵ Id. at 51-60.

¹⁶ Id. at 60.

Unsuccessful at a reconsideration,¹⁷ Central Bay filed this petition for *certiorari*¹⁸ ascribing grave abuse of discretion on the part of the COA in disapproving the Compromise Agreement and disallowing the other money claims. Central Bay insists that it will not own the reclaimed land but will be assigning it to a qualified individual.¹⁹ On the other hand, the COA, through the Office of the Solicitor General, counters that the Compromise Agreement contravened the letter and intent of the constitutional ban against corporate ownership of land.²⁰

RULING

The 1987 Constitution has made the COA the guardian of public funds, vesting it with broad powers over all accounts pertaining to government revenue and expenditures and the uses of public funds and property, including the exclusive authority to define the scope of its audit and examination, establish the techniques and methods for such review, and promulgate accounting and auditing rules and regulations.²¹ The COA is endowed with enough latitude to determine, prevent and disallow irregular, unnecessary, excessive, extravagant or unconscionable expenditures of government funds.²² Indeed, the Court has generally sustained the decisions or resolutions of COA owing to its constitutional mandate and special knowledge on matters within its powers unless it has clearly acted without or in excess of jurisdiction, or with grave abuse of discretion amounting to lack or excess of jurisdiction.²³ Specifically, grave abuse of discretion refers to evasion of a positive duty or virtual refusal to perform a duty enjoined by law or to act in contemplation of law such as when the assailed decision or resolution is not based on law and evidence but on caprice, whim and despotism.²⁴ Petitioner has the burden to prove public respondent's arbitrariness in rendering the assailed decision. Mere reversible error or abuse is not enough, it must be grave abuse of discretion.²⁵ In this case, there is no grave abuse of discretion when the COA disapproved the Compromise Agreement.

The proscription against corporate ownership of alienable lands is absolute and clear. Apropos is Section 3, Article XII of the 1987 Constitution which provides that private corporations “*may not hold such alienable lands of the public domain except by lease, for a period not exceeding twenty-five years, renewable for not more than twenty-five years, and not to exceed one*

¹⁷ Id. at 62.

¹⁸ Id. at 3–39.

¹⁹ Id. at 15–37.

²⁰ Id. at 420–426.

²¹ See Section 2 (1) and (2), D, Article IX of the 1987 Constitution. See also *Yap v. COA*, 633 Phil. 174, 189 (2010).

²² See *Paraiso-Aban v. COA*, 777 Phil. 730, 736 (2016); *Delos Santos v. COA*, 716 Phil. 322, 332 (2013); and *Sanchez v. COA*, 575 Phil. 428, 444–445 (2008).

²³ *Miralles v. COA*, 818 Phil. 380, 389 (2017).

²⁴ *Technical Education and Skills Development Authority v. COA*, 729 Phil. 60, 72–73 (2014). See also *Yap v. COA*, supra note 21, at 195–196.

²⁵ *Metropolitan Waterworks and Sewerage System v. COA*, 821 Phil. 117, 138 (2017).

thousand hectares in area.” Here, the Compromise Agreement obliged PRA to transfer the reclaimed land to Central Bay’s qualified assignee. Yet, this scheme grants Central Bay beneficial ownership or equitable title defined as “[a] title derived through a valid contract or relation, and based on recognized equitable principles; the right in the party, to whom it belongs, to have the legal title transferred to him[.]”²⁶ Indeed, the provision in the Compromise Agreement allowing conveyance to “Central Bay’s [q]ualified [a]ssignee” clearly means that Central Bay will hold the reclaimed land other than by lease which the constitutional ban seeks to avoid. Further, the stipulation presupposes that Central Bay, as an assignor, is qualified by law to exercise ownership of the land and transfer it to another party. On this score, the Court reiterates that an assignee cannot acquire greater rights than those pertaining to the assignor.²⁷ The assignee is merely subrogated to the rights and obligations of the assignor. The assignee is bound by exactly the same conditions that held the assignor under the original parties’ transaction.²⁸

In the analogous case of *Strategic Alliance Development Corporation v. Radstock Securities Limited*²⁹ the Court declared void the Compromise Agreement because the assignment of rights circumvented the prohibition against foreign corporations to own land in the Philippines, thus:

There is no dispute that Radstock is disqualified to own lands in the Philippines. Consequently, Radstock is also disqualified to own the rights to ownership of lands in the Philippines. Contrary to the OGCC’s claim, Radstock cannot own the rights to ownership of any land in the Philippines because Radstock cannot lawfully own the land itself. Otherwise, there will be a blatant circumvention of the Constitution, which prohibits a foreign private corporation from owning land in the Philippines. In addition, Radstock cannot transfer the rights to ownership of land in the Philippines if it cannot own the land itself. **It is basic that an assignor or seller cannot assign or sell something he does not own at the time the ownership, or the rights to the ownership, are to be transferred to the assignee or buyer.**

The third party assignee under the Compromise Agreement who will be designated by Radstock can only acquire rights duplicating those which its assignor (Radstock) is entitled by law to exercise. Thus, the assignee can acquire ownership of the land only if its assignor, Radstock, owns the land. **Clearly, the assignment by PNCC of the real properties to a nominee to be designated by Radstock is a circumvention of the Constitutional prohibition against a private foreign corporation owning lands in the Philippines. Such circumvention renders the Compromise Agreement void.**³⁰ (Emphases supplied)

²⁶ *PVC Investment & Management Corporation v. Borcena*, 507 Phil. 668, 681 (2005); citations omitted.

²⁷ See *Gonzales v. Land Bank of the Philippines*, 262 Phil. 568, 574 (1990); *Zayas, Jr. v. Luneta Motors Company*, 203 Phil. 91, 99 (1982); *Filinvest Credit Corporation v. Philippine Acetylene Company*, 197 Phil. 394, 403–404 (1982); *Industrial Finance Corporation v. Tobias*, 168 Phil. 197, 203 (1977); and *Industrial Finance Corporation v. Judge Ramirez*, 167 Phil. 509, 513–514 (1977).

²⁸ *Fort Bonifacio Development Corporation v. Fong*, 757 Phil. 314, 324 (2015).

²⁹ *Supra* note 1.

³⁰ *Id.* at 529–530.

In the same vein, the Compromise Agreement allowing Central Bay to assign the reclaimed land is void. Applying the maxim “*nemo dat quod non habet*,” the qualified assignee can acquire ownership of the land only if Central Bay owns the land.³¹ Otherwise, the stipulation will evade the Court’s decision which declared void the Amended JVA between PRA and Central Bay for violating the constitutional prohibition against private corporations from acquiring any kind of alienable land of the public domain except through a lease. As the COA aptly observed, the qualified assignee mentioned in the Compromise Agreement can only acquire rights which Central Bay can lawfully exercise. However, Central Bay is a private corporation that cannot own land in the Philippines. Consequently, Central Bay cannot transfer ownership of any land to another party.

Moreover, the COA correctly rejected the Compromise Agreement absent congressional approval. Section 20 (1), Chapter IV, Subtitle B, Title I, Book V of Executive Order No. 292,³² or the Administrative Code of 1987, is explicit that the Congress has the exclusive authority to compromise a settled claim or liability that exceeded ₱100,000.00 involving a government agency, to wit: “*Section 20. Power to Compromise Claims. – (1) When the interest of the Government so requires, the Commission may compromise or release in whole or in part, any settled claim or liability to any government agency not exceeding ten thousand pesos arising out of any matter or case before it or within its jurisdiction, and with the written approval of the President, it may likewise compromise or release any similar claim or liability not exceeding one hundred thousand pesos. In case the claim or liability exceeds one hundred thousand pesos, the application for relief therefrom shall be submitted, through the Commission and the President, with their recommendations, to the Congress.*” The law seeks to prevent a compromise agreement on a creditor’s claim settled through admission by a government agency without the approval of Congress for amounts exceeding ₱100,000.00.³³ In *Binga Hydroelectric Plant, Inc. v. COA*,³⁴ the Court clarified that the term “government agency” refers to “any of the various units of the Government, including a department, bureau, office, instrumentality, or government-owned or controlled corporation [GOCC], or a local government or a distinct unit therein. Thus, the provision applies to all GOCCs, with or without original charters. A GOCC cannot validly invoke its autonomy to enter into a compromise agreement that is in violation of the above provision.”³⁵ The Court also echoed that “the authority to compromise a settled claim or liability exceeding [₱]100,000.00 involving a government agency is vested, not in the COA, but exclusively in Congress.”³⁶

³¹ *Duque v. Spouses Yu*, 826 Phil. 358, 367 (2018).

³² Entitled “INSTITUTING THE ‘ADMINISTRATIVE CODE OF 1987,’” approved on July 25, 1987.

³³ *Strategic Alliance Development Corporation v. Radstock Securities Limited*, supra note 1, at 506.

³⁴ 836 Phil. 46 (2018).

³⁵ *Id.* at 56–57.

³⁶ *Id.* at 56.

Obviously, the Compromise Agreement between PRA and Central Bay must bear the approval of the Congress since the stipulated ₱1,027,031,483.79 money claim exceeded the threshold amount. Notably, Section 29 (1), Article VI of the 1987 Constitution provides that “[n]o money shall be paid out of the Treasury except in pursuance of an appropriation made by law.” Sections 84³⁷ and 85,³⁸ Chapter 4, Title II of PD No. 1445,³⁹ otherwise known as the Government Auditing Code of the Philippines, reinforce this constitutional mandate and require that before a government agency can enter into a contract involving the expenditure of government funds, there must be an appropriation law for such expenditure. Section 86⁴⁰ of PD No. 1445, on the other hand, requires that the proper accounting official must certify that funds have been appropriated for the purpose. Section 87⁴¹ of PD No. 1445 provides that any contract entered into contrary to the requirements of Sections 85 and 86 shall be void.

Applying Section 29 (1), Article VI of the 1987 Constitution, as implanted in Sections 84 and 85 of the Government Auditing Code, a law must first be enacted by Congress appropriating ₱1,027,031,483.79 as compromise money before payment to Central Bay can be made. Otherwise, such payment violates a prohibitory law and thus void under Article 5 of the Civil Code which states that “[a]cts executed against the provisions of mandatory or prohibitory laws shall be void, except when the law itself authorizes their validity.” Indisputably, without an appropriation law, PRA cannot lawfully pay the money claims to Central Bay. Any contract allowing such payment, like the Compromise Agreement, shall be void.

³⁷ Section 84. *Disbursement of Government Funds.* — (1) Revenue funds shall not be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority.

x x x x

³⁸ Section 85. *Appropriation Before Entering into Contract.* — (1) No contract involving the expenditure of public funds shall be entered into unless there is an appropriation therefor, the unexpended balance of which, free of other obligations, is sufficient to cover the proposed expenditure.

x x x x

³⁹ Entitled “ORDAINING AND INSTITUTING A GOVERNMENT AUDITING CODE OF THE PHILIPPINES,” approved on June 11, 1978.

⁴⁰ Section 86. *Certificate Showing Appropriation to Meet Contract.* -- Except in the case of a contract for personal service, for supplies for current consumption or to be carried in stock not exceeding the estimated consumption for three months, or banking transactions of government-owned or controlled banks, no contract involving the expenditure of public funds by any government agency shall be entered into or authorized unless the proper accounting official of the agency concerned shall have certified to the officer entering into the obligation that funds have been duly appropriated for the purpose and that the amount necessary to cover the proposed contract for the current fiscal year is available for expenditure on account thereof, subject to verification by the auditor concerned. The certificate signed by the proper accounting official and the auditor who verified it, shall be attached to and become an integral part of the proposed contract, and the sum so certified shall not thereafter be available for expenditure for any other purpose until the obligation of the government agency concerned under the contract is fully extinguished.

⁴¹ Section 87. *Void Contract and Liability of Officer.* -- Any contract entered into contrary to the requirements of the two immediately preceding sections shall be void, and the officer or officers entering into the contract shall be liable to the government or other contracting party for any consequent damage to the same extent as if the transaction had been wholly between private parties.

Lastly, the COA correctly disallowed Central Bay's money claims except the amount of ₱714,937,790.29 representing advance payment for the reclamation and project development which were properly established with documentary evidence. It bears emphasis that one of the fundamental principles governing financial transactions and operations of any government agency is that "[c]laims against government funds shall be supported with complete documentation."⁴² On this note, we quote with approval the COA's computations and findings, to wit:

It is settled that payment for services rendered on account of the government, although based on a void contract, may be granted on the basis of *quantum meruit*. The principle of *quantum meruit* allows recovery of an amount to the extent of the reasonable value of the thing or services rendered, regardless of any agreement as to the value. x x x Similarly, Central Bay may claim reimbursement for the actual costs it incurred in implementing the Amended JVA, provided that the claim is substantiated by supporting documents.

x x x x

On the advance payment amounting to [₱]300,000,000.00, records show that the amount was paid by Central Bay to PRA as partial payment for the rawland reclamation cost x x x. **Considering that this is directly connected to the implementation of the project, and is duly supported with copies of official receipts, the amount is hereby granted.**

x x x x

However, the squatter's relocation costs remain doubtful, for lack of documents sufficient to support the claim that the amount was actually incurred for the intended purpose of relocation. On record are mere photocopies of payable vouchers, check vouchers, and acknowledgment receipts by GGL for [₱]280,680,000.00. The other funds were allegedly received by a certain Mario Minoro in the amount of [₱]60,000.00; and grocery items and cash totaling [₱]200,000.00 were acknowledged under letter dated January 4, 2000. **Thus, the claim for squatter's relocation costs is denied.**

As to Central Bay's alleged advances to PRA in the amount of [₱]15,661,689.00 for the relocation of the squatters of Freedom Island-CBP-1 and expenses for Housing Cash Assistance Program and Payment (HCAP) to its beneficiaries, **the same could not be validated for lack of supporting documents.**

The project development costs amounting to [₱]414,939,965.45 allegedly represents the project accomplishment of Central Bay at 3.3778% of the total contract cost of [₱]12.284 Billion. Based on the accomplishment reports certified by PRA, the accomplishment includes mobilization, temporary facilities, initial containment, and reclamation works x x x. A revalidation of the accomplishment shows the following:

⁴² See Section 4, paragraph 6 of PD No. 1445. See also Section 5 (f), Volume 1 of the Government Accounting Manual for National Government Agencies.

1. 78.28% mobilization and construction of site facilities	[P]241,423,574.27
2. 100% removal of overburden	100,977,180.16
3. 100% rehandling preparation	53,854,485.42
4. 2.679% soil improvement	4,729,454.35
5. Production of pre-cast materials	4,643,190.25
6. Installation of pre-cast materials	9,309,905.84
Total	<u>[P]414,937,790.29</u>

In sum, out of the [P]1,004,439,048.45 claim, this Commission grants the amount of [P]714,937,790.29, summarized as follows:

1. Advance payment to PRA	[P]300,000,000.00
2. Project development cost	414,937,790.29
Total	<u>[P]714,937,790.29</u>

x x x x

The squatter's relocation cost amounting to [P]22,350,560.11 is denied under Section 168(c) of the Government Accounting and Auditing Manual Volume 1 and paragraph 6, Section 4 of [Presidential Decree (PD)] No. 1445, **for lack and/or insufficiency of supporting documents.**

x x x x

On the development cost amounting to [P]15,664,693.75, Central Bay claims reimbursement for payments allegedly made to MCRP Construction Corporation (Extra Work Order No. 1) for the equipment and fuel used in the maintenance of the access road. Under the PRA Verification Report dated January 14, 2014, the PRA Committee recommended giving due course to this expense in the amount of [P]6,871,673.50 only. **However, in the absence of the approved Extra Work Order No. 1, MCRP Billing of Extra Work Order in the total amount of [P]7,114,906.64, and other pertinent documents to establish the validity of the claim, this Commission cannot grant the claim.**

The professional fees amounting to [P]1,175,961,478.48, based on the Schedule of Professional and Legal Fees x x x, cannot also be granted. The amount of [P]972,750,000.00 or 83% of the alleged professional fees represents expenses for Brokers' fees, which could not be considered directly related to the project. The rest of professional fees were paid to law firms, accounting firms, engineering companies, appraisers and developers, which are not also directly related to the implementation of the project. **If at all, these expenses were incurred by Central Bay for its own benefit and in connection with its obligation under Section 7.10 of the Amended JVA x x x.**

x x x x

Thus, the claim of professional fees amounting to [P]1,175,961,478.48 is **denied for lack of legal basis and insufficient supporting documents.**

On the interest and bank charges on loans and foreign exchange losses on loans in the total amount of [P]1,832,472,580.76, this Commission finds the claim without merit. Under the JVA and the

Amended JVA, the funding of the project is at the sole expense of Central Bay. **Thus, the government is not privy to any loan agreement entered into by Central Bay for the financing of the project. More importantly, the losses are part of Central Bay's investment risk as financier of the project, which cannot hold the government liable.**

The claim of pre-operating and operating expenses in the amount of [P]142,730,146.00 is likewise denied for lack of merit. **These expenses pertain to Central Bay's operational expenses and are not directly related to the project, thus, cannot be attributed to the government.**

Central Bay also claims for reimbursement of input tax amounting to [P]53,949,402.00, representing 10% of the total purchases of capital goods and services made by MCRP, including adjustments of [P]313,038.36. Central Bay made advance payments to MCRP in the total amount of [P]590 million from December 1996 to September 1997, for the implementation of the project. The input tax of MCRP, a VAT-registered corporation, for domestic purchases of capital goods and services is a form of tax credit. At the end of each quarter, the input VAT is applied against its VAT liabilities. Likewise, Central Bay is claiming reimbursement for documentary stamp tax in the amount of [P]3,203,847.20. The documentary stamp tax was paid on the loan agreement between Central Bay and Bangkok Bank Public Company Limited amounting to \$32,100,000.00 **Both claims have no legal basis for these are part of the development cost, which, as previously stated, is solely for the account of Central Bay. Thus, the claim for input tax and documentary stamp tax in the total amount of [P]57,153,249.20 is denied.**

X X X X

Central Bay claims cost of money at the rate of 12% interest per annum x x x. Central Bay contends that cost of money pertains to the foregone interest or benefit on the funds used in relation to the project, and thus, the principle in *Eastern Assurance and Surety Corporation v. Court of Appeals* [379 Phil. 84 (2000)] applies. In said case, the SC held that "when the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest shall be 12% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance or credit." Central Bay likewise submits that this Commission has, in the past, granted payment of interest in money claims, citing COA Decision No. 2009-093 dated October 14, 2009.

The contentions are untenable.

The ruling of the SC in *Eastern Assurance* cannot apply because its facts and circumstances are different from this case. The *Eastern Assurance* case involves a claim for indemnity and payment of damages against an insurance company for breach of contract, and the only issue therein was the computation of the applicable legal rate of interest. It does not involve a money claim against the government for reimbursement of costs and payment based on *quantum meruit*. Further, in COA Decision No. 2009-093, this Commission merely affirmed a decision of the SC which has long been declared final and executory. The decision particularly contained a computation of the monetary award and legal interest. Thus, this Commission had no recourse but to conform thereto.

It bears stressing that the claim stems from the nullification of a JVA entered into by Central Bay and the government. Being a joint venture, Central Bay undertook the financing and development of the reclamation project at no cost to the government. To put it succinctly, the losses Central Bay may have entailed are part of the investment risks attached to the business venture it entered into with the government, which it must solely bear.

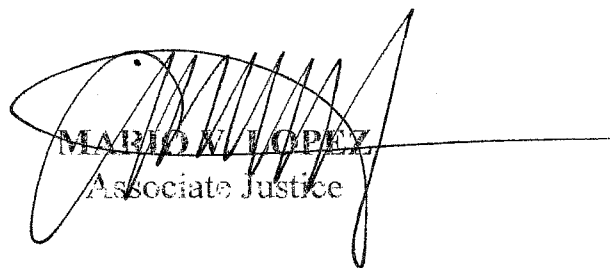
Moreover, to award legal interest, is contrary to the principle of *quantum meruit*, on which this petition is based. To reiterate, *quantum meruit* allows recovery of the reasonable value regardless of any agreement as to value. It entitles the party to as much as he reasonably deserves as distinguished from *quantum valebant* or as much as what is reasonably worth.

All told, this Commission finds Central Bay entitled to the total amount of [P]714,937,790.29, representing Central Bay's advance payment to PRA ([P]300,000,000.00) and Project Development Cost ([P]414,937,790.29).⁴³ (Emphases supplied)

In sum, the COA did not commit grave abuse of discretion when it disapproved the Compromise Agreement and disallowed the money claims, except the amount of P714,937,790.29 that was properly established with documentary evidence. The Court reminds that a contract which violates the Constitution is void, and it will not permit to be done indirectly which, because of public policy, cannot be done directly.⁴⁴

FOR THESE REASONS, the petition is **DISMISSED**. The Decision of the Commission on Audit dated May 23, 2019 in COA CP Case No. 2010-350 is **AFFIRMED**. The Compromise Agreement between respondent Philippine Reclamation Authority and petitioner Central Bay Reclamation and Development Corporation is declared **VOID AB INITIO** for being contrary to Section 3, Article XII of the 1987 Constitution; Section 20 (1), Chapter IV, Subtitle B, Title I, Book V of Executive Order No. 292, or the Administrative Code of 1987; and Section 87, Chapter 4, Title II of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

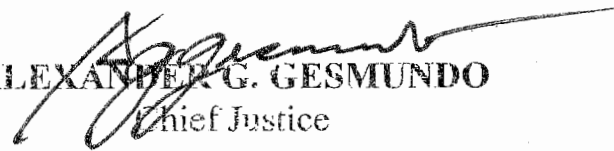
SO ORDERED.


MARIO N. LOPEZ
Associate Justice

⁴³ *Rollo*, pp. 54-60.

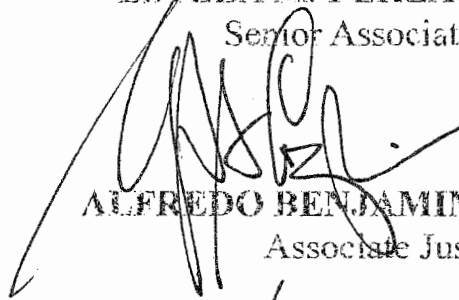
⁴⁴ *Beumer v. Amores*, 700 Phil. 90, 98 (2012).


WE CONCUR:


ALEXANDER G. GESMUNDO
Chief Justice



ESTELA M. PERLAS-BERNABE
Senior Associate Justice

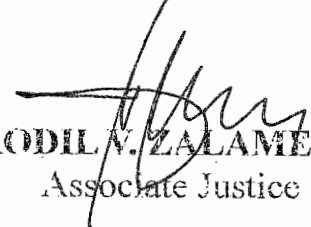

MARVIC M.V.F. LEONEN
Associate Justice



ALFREDO BENJAMIN S. CAGUIOA
Associate Justice


RAMON PAUL L. HERNANDO
Associate Justice



AMY C. LAZARO-JAVIER
Associate Justice

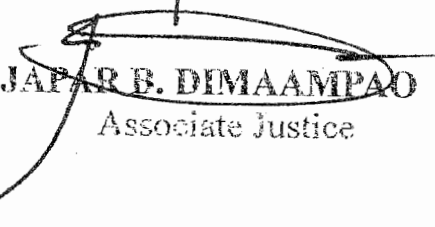

HENRI JEAN PAUL B. INTING
Associate Justice



RODIL V. ZALAMEDA
Associate Justice

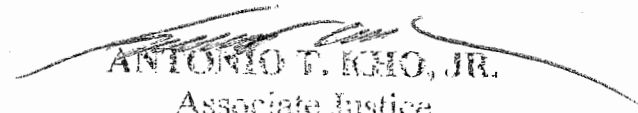

SAMUEL H. GAERLAN
Associate Justice


RICARDO R. ROSARIO
Associate Justice


JHOSEP LOPEZ
Associate Justice

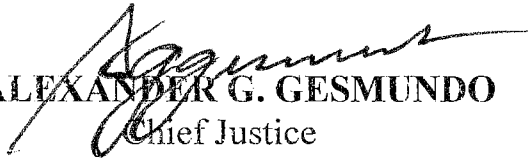

JAPAR B. DIMAAMPAO
Associate Justice


JOSE MIDAS P. MARQUEZ
Associate Justice

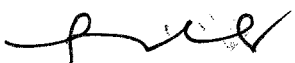

ANTONIO T. KIO, JR.
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, it is hereby certified that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court.


ALEXANDER G. GESMUNDO
Chief Justice

CERTIFIED TRUE COPY


MARIA LUISA M. SANTILLA
Deputy Clerk of Court and
Executive Officer
OCC-En Banc, Supreme Court