Republic of the Philippines
Supreme Court
Manila

EN BANC

SOLITO TORCUATOR, General Manager, Polomolok Water District and EMPLOYEES OF POLOMOLOK WATER DISTRICT, represented by CECIL MIRASOL,
Petitioners,

- versus -

COMMISSION ON AUDIT, and POLOMOLOK WATER DISTRICT AUDIT TEAM LEADER ALIA ARUMPAC-MASBUD,
Respondents.

G.R. No. 210631

Present:

BERSAMIN, *C.J.*,
CARPIO,
PERALTA,
DEL CASTILLO,
PERLAS-BERNABE,
LEONEN,
JARDELEZA,*
CAGUIOA,
REYES, JR., A.B.,
GESMUNDO,
REYES, JR., J.C.,
HERNANDO,
CARANDANG, and
LAZARO-JAVIER, *JJ.*

Promulgated:

March 12, 2019

x - x

RESOLUTION

GESMUNDO, *J.*:

This is a petition for *certiorari* seeking to annul and set aside the November 26, 2012 Decision[1] and November 20, 2013 Resolution[2] of the

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* No Part.
[1] *Rollo*, pp. 26-36; concurred by Chairperson Ma. Gracia M. Pulido Tan and Commissioners Juanito G. Espino, Jr. and Heidi L. Mendoza.
[2] Id. at 37-39; concurred by Chairperson Ma. Gracia M. Pulido Tan and Commissioners Heidi L. Mendoza and Rowena V. Guanzon.

Commission on Audit *(COA)* in Decision No. 2012-222 and Resolution No. 2013-194, respectively. The COA affirmed the Decision[3] of the COA Regional Office XII *(Region XII)* in COA XII Decision No. 09-05 dated March 16, 2009 which affirmed Notice of Disallowance *(ND)* Nos. 07-001-(06), 07-002-(06), 07-003-(06), and 07-004-(06)[4] dated October 4, 2007.

Polomolok Water District *(PWD)* is a government-owned and controlled corporation organized under Presidential Decree No. 198, as amended. Prior to November 1, 1989, the employees of PWD were receiving medical, food and rice allowances, and cost of living allowance *(COLA)*. However, these benefits were discontinued under Republic Act *(R.A.)* No. 6758.[5]

To implement R.A. No. 6758, the Department of Budget and Management *(DBM)* issued Corporate Compensation Circular *(CCC)* No. 10. It provided, among others, the discontinuance of all allowances and fringe benefits, including COLA, of government officers and employees over and above their basic salaries starting July 1, 1989.

On the basis of DBM-CCC No. 10, PWD stopped paying its officers and employees COLA and other fringe benefits. However, on August 12, 1998, the Court promulgated *De Jesus v. Commission on Audit*[6] *(De Jesus)* stating that DBM-CCC No. 10 was ineffective due to its non-publication in the Official Gazette or in a newspaper of general circulation in the country, as required by law. Subsequently, DBM-CCC No. 10 dated February 15, 1999, was re-issued and properly published.[7]

In its Letter[8] dated November 8, 2000, the DBM stated that local water districts shall be allowed to continue the grant of allowances/fringe benefits that are found to be an established practice as of December 31, 1999. In another Letter[9] dated April 27, 2001, the DBM reiterated that the grant of allowances and fringe benefits that have been established and granted as of December 31, 1999 shall form part of the compensation being regularly received by the local water district personnel.

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[3] Id. at 97; penned by Atty. Usmin P. Diamel, Regional Director.
[4] Id. at 98-113.
[5] Also known as the Compensation and Position Classification Act of 1989.
[6] 355 Phil. 584 (1998).
[7] See *rollo*, p. 28.
[8] Id. at 57-59.
[9] Id. at 60-61.

Thus, PWD issued Board Resolution No. 02-27 authorizing the payment of COLA and other allowances for the inclusive period of 1992-1999, pursuant to the ruling in *De Jesus.* In 2006, the COLA, medical, food gift, and rice allowances were released to the officers and employees on staggered basis.

The Notice of Disallowance

On October 4, 2007, the COA Audit Team Leader assigned to PWD issued the following NDs:

1. ND No. 07-001-(06) disallowing the amount of ₱832,000.00 representing the payment of medical, food gift, and rice allowances contrary to Section 5.6 of DBM-CCC No. 10 dated February 15, 1999, Section 12 of R.A. No. 6758, and COA Resolution No. 2004-006 dated September 14, 2004;

2. ND No. 07-002-(06) disallowing the amount of ₱28,720.00 representing payment of year-end financial assistance, cash gift and extra cash gift for calendar year 2005, contrary to Section 8, Article IX(B) of the Constitution, Section 4 of Presidential Decree *(P.D.)* No. 1445, and Resolution No. 239-05 dated December 20, 2005 of the Local Water Utilities Administration *(LWUA);*

3. ND No. 07-003-(06) disallowing the amount of ₱111,737.04 for the payment to a certain Victor Dignadice for the recovery of his down payment of one unit L-300 van contrary to Section 4(6) of P.D. No. 1445 and Section 168 of the Government Accounting and Auditing Manual, Volume I; and

4. ND No. 07-004-(06) disallowing the amount of ₱728,953.92 for the payment of the COLA contrary to Paragraph 6.0 of the DBM Budget Circular No. 2001-03 dated November 12, 2001, Paragraph 5.0 of DBM National Budget Circular No. 2005-502 dated October 26, 2005, and Paragraph 5.6 of DBM-CCC No. 10 dated February 15, 1999.[10]

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[10] See id. at 27-28.

The NDs held that those who approved the transactions, certified the documents, payees, and the recipients, were liable to settle the disallowance.

Aggrieved, the affected officers and employees of PWD, collectively referred to as petitioners, appealed ND Nos. 07-001-(06), 07-003-(06), and ND No. 07-004-(06) to the COA Region XII.

The COA Region XII Ruling

In its Decision[11] dated February 3, 2009, the COA Region XII affirmed the disallowances. It held that the subject expenses were illegal expenditures and devoid of legal basis because they were prohibited allowances and benefits under Sec. 5.6 of DBM-CCC No. 10, Sec. 12 of R.A. No. 6758, COA Resolution No. 2004-06. The COA Region XII concluded that the appeal could not be given due course.

Petitioners moved for reconsideration but it was denied by the COA Region XII in its decision dated March 16, 2009. Thus, the appeal was transmitted to the COA pursuant to Section 6, Rule VI of the 1997 Revised Rules of Procedure of the COA.

The COA Ruling

In its decision dated November 26, 2012, the COA denied the appeal. It held that under Sec. 12 of R.A. No. 6758, the payment of separate benefits to employees hired after July 1, 1989, as in this case, should be withheld because they are deemed integrated in the government employee's salary. The COA cited *Gutierrez, et al. v. DBM, et al.*[12] *(Gutierrez),* which stated that COLA and other benefits are deemed integrated in the standardized salary rates of government employees under the general rule of integration. It also stated that the non-publication of DBM-CCC No. 10 did not nullify the integration of COLA and other benefits into the standardized rates upon effectivity of R.A. No. 6758.

Petitioners filed a motion for reconsideration but it was denied by the COA in its resolution dated November 20, 2013.

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[11] Id. at 96.
[12] 630 Phil. 1 (2010).

Hence, this petition seeking to overturn ND No. 07-001-(06) for the payment of medical, food gift, and rice allowances in 2006; and ND No. 07-00-4-(06) for the payment of COLA in 2006.[13]

ISSUES

I.

THE COMMISSION ON AUDIT ERRED AND GRAVELY ABUSED ITS DISCRETION IN UPHOLDING THE FINDINGS OF COA FIELD AUDITORS IN ND NO. 07-001-(06), DISALLOWING PAYMENT OF MEDICAL, FOOD GIFT AND RICE ALLOWANCES TO THE EMPLOYEES OF POLOMOLOK WATER DISTRICT IN 2006 DESPITE CLEARANCE FROM THE DEPARTMENT [OF] BUDGET AND MANAGEMENT;

II.

THE COMMISSION ON AUDIT ERRED AND GRAVELY ABUSED ITS DISCRETION IN UPHOLDING THE FINDINGS OF COA FIELD AUDITORS IN ND NO. 07-004-(06), DISALLOWING PAYMENT OF COLA TO THE EMPLOYEES OF POLOMOLOK WATER DISTRICT FOR THE YEARS 1992 THROUGH 1999 DESPITE THE PREVAILING CASE LAW AT THE TIME OF PAYMENT IN 2006;

III.

THE COMMISSION ON AUDIT ERRED AND GRAVELY ABUSED ITS DISCRETION IN RETROACTIVELY APPLYING THE 2010 DECISION IN THE CASE OF *GUTIERREZ V. DBM* IN THE ACTUAL DISBURSEMENT IN 2006 AND IN MISAPPLYING THE SAME TO A GOVERNMENT[-]OWNED AND CONTROLLED CORPORATION.[14]

In their Memorandum,[15] petitioners assert that since *De Jesus* invalidated DBM-CCC No. 10 for non-publication, then there was no implementing rule that determined the benefits incorporated in the salaries of government employees until said circular was re-published in 1999. Thus, they argue that PWD sufficiently relied on *De Jesus* when it released the COLA, medical, food gift, and rice allowances of the employees for the inclusive years of 1992 to 1999. They also aver that *De Jesus* was reiterated in *Philippine Ports Authority Employees Hired after July 1, 1989 v. Commission on Audit, et al.*[16] *(PPA Employees),* which stated that employees of Government-Owned and Controlled Corporations *(GOCCs)*

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[13] *Rollo,* p. 22.
[14] Id. at 13.
[15] Id. at 221-232.
[16] 506 Phil. 382 (2005).

are entitled to COLA and other fringe benefits during the time that DBM-CCC No. 10 was in legal limbo.

Petitioners further contend that *Gutierrez* is inapplicable because at the time the auditors issued the subject NDs, it was not yet promulgated by the Court. In addition, they stress that they merely relied on the DBM letters stating that local water districts shall be allowed to continue the grant of allowances/fringe benefits that are found to be an established practice as of December 31, 1999.

In their Memoranda,[17] COA and Audit Team Leader for PWD *(respondents)* countered that Sec. 12 of R.A. No. 6758 clearly states that benefits shall be deemed integrated in the standard salary of government employees; that it was not necessary for an implementing rule from the DBM to execute the said provision of the law; and also emphasized that in *Gutierrez,* the non-publication of DBM-CCC No. 10 did not nullify the integration of COLA into the standardized rates upon effectivity of R.A. No. 6758.

Respondents also argue that Sec. 12 of R.A. No. 6758 mandates that additional compensation not integrated in the salary shall only be received by incumbent employees as of July 1, 1989 and not thereafter. Thus, petitioners cannot rely on the letters of the DBM, stating that local water district employees may receive allowances/fringe benefits that are found to be an established practice until December 31, 1999.

The Court's Ruling

The petition is partially meritorious.

Sec. 12 of R.A. No. 6758 is self-executory

R.A. No. 6758 standardized the salaries received by government officials and employees. Sec. 12 thereof states:

> SECTION 12. Consolidation of Allowances and Compensation. — All allowances, except for representation and transportation allowances; clothing and laundry allowances; subsistence allowance of marine officers and crew on board government vessels and hospital personnel; hazard pay;

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[17] *Rollo*, pp. 184-199 and 211-219.

> allowances of foreign service personnel stationed abroad; and such other additional compensation not otherwise specified herein as may be determined by the DBM, shall be deemed included in the standardized salary rates herein prescribed. Such other additional compensation, whether in cash or in kind, being received by incumbents only as of July 1, 1989 not integrated into the standardized salary rates shall continue to be authorized.
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> Existing additional compensation of any national government official or employee paid from local funds of a local government unit shall be absorbed into the basic salary of said official or employee and shall be paid by the National Government.

In *Maritime Industry Authority v. Commission on Audit*[18] *(MIA)* the Court explained the provision of Sec. 12, to wit:

> The clear policy of Section 12 is "to standardize salary rates among government personnel and do away with multiple allowances and other incentive packages and the resulting differences in compensation among them." Thus, the general rule is that all allowances are deemed included in the standardized salary. However, there are allowances that may be given in addition to the standardized salary. These non-integrated allowances are specifically identified in Section 12, to wit:
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> 1. representation and transportation allowances;
> 2. clothing and laundry allowances;
> 3. subsistence allowance of marine officers and crew on board government vessels;
> 4. subsistence allowance of hospital personnel;
> 5. hazard pay; and
> 6. allowances of foreign service personnel stationed abroad.
>
> In addition to the non-integrated allowances specified in Sec. 12, the Department of Budget and Management is delegated the authority to identify other allowances that may be given to government employees in addition to the standardized salary.[19]

Pursuant to R.A. No. 6758, DBM-CCC No. 10 was issued, which provided, among others, the discontinuance without qualification of all allowances and fringe benefits, including COLA, of government employees

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[18] 750 Phil. 288 (2015).
[19] Id. at 314-315.

over and above their basic salaries.[20] In 1998, the Court declared in the case of *De Jesus* that DBM-CCC No. 10 is without force and effect on account of its non-publication in the Official Gazette or in a newspaper of general circulation, as required by law. In 1999, DBM re-issued its DBM-CCC No. 10 in its entirety and submitted it for publication in the Official Gazette.

Thus, petitioners chiefly argue that since DBM-CCC No. 10 was invalidated and was re-published only in 1999, then the officers and employees of PWD may receive COLA and other fringe benefits for the period of 1992 to 1999.

The Court is not convinced.

As early as *Philippine International Trading Corporation v. Commission on Audit,*[21] the Court held that the nullification of DBM-CCC No. 10 in *De Jesus* does not affect the validity of R.A. No. 6758, to wit:

> There is no merit in the claim of PITC that R.A. No. 6758, particularly Section 12 thereof is void because DBM-Corporate Compensation Circular No. 10, its implementing rules, was nullified in the case of *De Jesus v. Commission on Audit*, for lack of publication. The basis of COA in disallowing the grant of SFl was Section 12 of R.A. No. 6758 and not DBM-CCC No. 10. **Moreover, the nullity of DBM-CCC No. 10, will not affect the validity of R.A. No. 6758. It is a cardinal rule in statutory construction that statutory provisions control the rules and regulations which may be issued pursuant thereto.** Such rules and regulations must be consistent with and must not defeat the purpose of the statute. The validity of R.A. No. 6758 should not be made to depend on the validity of its implementing rules.[22] (emphasis supplied; citations omitted)

In *NAPOCOR Employees Consolidated Union, et al. v. National Power Corporation, et al.*,[23] the Court reiterated that while DBM-CCC No. 10 was nullified in *De Jesus*, there is nothing in that decision suggesting or intimating the suspension of the effectivity of R.A. No. 6758 pending the publication of DBM-CCC No. 10 in the Official Gazette.

In *Gutierrez,* the Court definitively ruled that COLA is integrated in the standard salary of government officials and employees under Sec. 12 of R.A. No. 6758, to wit:

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[20] See *rollo,* p. 9.
[21] 461 Phil. 737 (2003).
[22] Id. at 749-750.
[23] 519 Phil. 372 (2006).

> The drawing up of the above list is consistent with Section 12 above. R.A. [No.] 6758 did not prohibit the DBM from identifying for the purpose of implementation what fell into the class of "all allowances." With respect to what employees' benefits fell outside the term apart from those that the law specified, the DBM, said this Court in a case, needed to promulgate rules and regulations identifying those excluded benefits. This leads to the inevitable conclusion that until and unless the DBM issues such rules and regulations, the enumerated exclusions in items (1) to (6) remain exclusive. **Thus so, not being an enumerated exclusion, COLA is deemed already incorporated in the standardized salary rates of government employees under the general rule of integration.**
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> x x x x
>
> Clearly, COLA is not in the nature of an allowance intended to reimburse expenses incurred by officials and employees of the government in the performance of their official functions. It is not payment in consideration of the fulfillment of official duty. As defined, cost of living refers to "the level of prices relating to a range of everyday items" or "the cost of purchasing those goods and services which are included in an accepted standard level of consumption." Based on this premise, COLA is a benefit intended to cover increases in the cost of living. Thus, it is and should be integrated into the standardized salary rates.[24] (emphasis supplied; citations omitted)

In *MIA,* the Court emphasized that R.A. No. 6758 deems **all allowances and benefits received by government officials and employees as incorporated in the standardized salary**, unless excluded by law or an issuance by the DBM. The integration of the benefits and allowances is by legal fiction.[25]

It was also discussed therein that "[o]ther than those specifically enumerated in [Sec.] 12, non-integrated allowances, incentives, or benefits, may still be identified and granted to government employees. This is categorically allowed in [R.A.] No. 6758. This is also in line with the President's power of control over executive departments, bureaus, and offices. These allowances, however, cannot be granted indiscriminately. Otherwise, the purpose and mandate of [R.A.] No. 6758 will be defeated."[26]

More recently, in *Zamboanga City Water District, et al. v. Commission on Audit*[27] *(ZCWD),* it was declared by the Court that, in accordance with the *MIA* ruling, the COLA and Amelioration Allowance

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[24] Supra note 12, at 16-17.
[25] Supra note 18, at 332.
[26] Id. at 320.
[27] 779 Phil. 225 (2016).

(AA) are already deemed integrated in the standardized salary, particularly, in local water districts.

Verily, the Court has consistently held that Sec. 12 of R.A. No. 6758 is valid and self-executory even without the implementing rules of DBM-CCC No. 10. The said provision clearly states that all allowances and benefits received by government officials and employees are deemed integrated in their salaries. As applied in this case, the COLA, medical, food gift, and rice allowances are deemed integrated in the salaries of the PWD officers and employees. Petitioners could not cite any specific implementing rule, stating that these are non-integrated allowances. Thus, the general rule of integration shall apply.

The ruling in PPA Employees is inapplicable

Petitioners insist that the ruling in *PPA Employees* is applicable herein. In said case, the Court stated that during the period that DBM-CCC No. 10 was in legal limbo, the COLA and other allowances were not effectively integrated into the standardized salaries.

The argument fails.

In *PPA Employees,* the crux of the issue was whether it was appropriate to **distinguish between employees hired before and after July 1, 1989** in allowing the back payment of the COLA. In the said case, the Court ruled that there was no substantial difference between employees hired before July 1, 1989 and those hired thereafter to warrant the exclusion of the latter from COLA back payment. It is important to highlight that, in *PPA Employees*, the COLA was paid on top of the salaries received by the employees therein before it was discontinued.[28]

In *Republic, et al. v. Cortez, et al.,*[29] the Court affirmed that the *PPA Employees* ruling cannot be invoked during the period of legal limbo and applies only when there is a necessity to distinguish between employees hired before and after July 1, 1989:

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[28] *Metropolitan Naga Water District, et al. v. COA,* 782 Phil. 281, 290 (2016).
[29] 805 Phil. 294 (2017).

> In order to settle any confusion, we abandon any other interpretation of our ruling in *Philippine Ports Authority (PPA) Employees Hired after July 1, 1989* with regard to the entitlement of the NAPOCOR officers and employees to the back payment of COLA and AA during the period of legal limbo. To grant any back payment of COLA and AA despite their factual integration into the standardized salary would cause salary distortions in the Civil Service. It would also provide unequal protection to those employees whose COLA and AA were proven to have been factually discontinued from the period of Republic Act No. 6758's effectivity.
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> x x x x
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> Furthermore, *Philippine Ports Authority (PPA) Employees Hired after July 1, 1989* only applies if the compensation package of those hired before the effectivity of Republic Act No. 6758 actually decreased; or in the case of those hired after, if they received a lesser compensation package as a result of the deduction of COLA or AA.[30]

In this case, however, the PWD officers and employees that received the disallowed benefits were uniformly hired **after July 1, 1989**.[31] Thus, *PPA Employees* does not apply in all fours in the present case. Sec. 12 of R.A. No. 6753 should be applied to the said officers and employees. At the time they were hired, there was no diminution of benefits as these benefits were deemed integrated in the standardized salaries. To reiterate, petitioners cannot invoke the legal limbo of DBM-CCC No. 10 because the integration of allowances under Sec. 12 is self-executory even without any implementing rule.

Petitioners cannot invoke the letters of the DBM

Petitioners insist that the DBM letters, which state that local water districts shall be allowed to continue the grant of allowances/fringe benefits found to be an established practice as of December 31, 1999, justify the grant of COLA, medical, food gift, and rice allowances for the inclusive years of 1992 to 1999.

Again, the argument fails.

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[30] Id. at 338-339.
[31] *Rollo*, pp. 111-113.

Sec. 12 of R.A. No. 6753 sets July 1, 1989 as the date when employees should be considered "incumbents," because that was the date when the law took effect. Thus, there was sufficient reason for choosing such date as the cut-off point of the grant of allowances or fringe benefits.[32]

Verily, DBM is constrained to abide by the explicit provision of the law that July 1, 1989 is the reckoning point, pursuant to R.A. No. 6753, when allowances or fringe benefits may be granted to incumbent officers and employees. After the said date, the general rule of integration shall apply to allowances and benefits.

Consequently, the DBM letters cited by petitioners cannot be invoked to change the specific date provided by the law. Glaringly, the said letters did not even state any justification for disregarding July 1, 1989, as stated under R.A. No. 6753, and upholding December 1, 1999 as the reckoning period. The implementing rules and regulations of a law cannot extend the law or expand its coverage, as the power to amend or repeal a statute is vested in the legislature.[33]

Petitioners exercised good faith

Good faith is a state of mind denoting "honesty of intention, and freedom from knowledge of circumstances which ought to put the holder upon inquiry; an honest intention to abstain from taking any unconscientious advantage of another, even through technicalities of law, together with absence of all information, notice, or benefit or belief of facts which render transaction unconscientious."[34]

In *Development Bank of the Philippines v. Commission on Audit,*[35] the Court ruled that good faith may be appreciated in favor of the responsible officers under the ND provided they comply with the following requisites: (1) that they acted in good faith believing that they could disburse the disallowed amounts based on the provisions of the law; and (2) that they lacked knowledge of facts or circumstances which would render the disbursements illegal, such when there is no similar ruling by this Court prohibiting a particular disbursement or when there is no clear and unequivocal law or administrative order barring the same.

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[32] Id. at 196.
[33] *The Public Schools District Supervisors Association v. De Jesus, et al.*, 524 Phil. 366, 386 (2006).
[34] *Maritime Industry Authority v. Commission on Audit*, supra note 18 at 337, citing *Philippine Economic Zone Authority v. Commission on Audit*, 690 Phil. 104, 115 (2012).
[35] G.R. No. 221706, March 13, 2018.

In this case, the Court finds that petitioners exercised good faith in granting COLA, medical, food gift, and rice allowances for the inclusive years of 1992 to 1999, due to the following reasons:

First, when petitioners disbursed the disallowed benefits in 2006, there was no existing rule or jurisprudence regarding the integration of COLA, medical, food gift, and rice allowances. It was only on March 18, 2010, that the Court promulgated *Gutierrez,* which stated that COLA was deemed integrated in the salaries of government officers and employees under R.A. No. 6753.

On the other hand, it was only on January 13, 2015, that *MIA* was promulgated, which definitively settled that all allowances and benefits received by government officials and employees were incorporated in the standardized salary, unless excluded by law or an issuance by the DBM. This included the medical, food gift, and rice allowances, which are the subjects of the present case.

Manifestly, at the time that petitioners authorized, certified and released the disallowed COLA, medical, food gift, and rice allowances, there was no decisive guiding principle to prohibit such allowances.

Second, when petitioners released the said benefits, they relied on good faith on the letters of the DBM, dated November 8, 2008 and April 27, 2001, respectively. In those letters, it was expressly stated that local water districts shall be allowed to continue the grant of allowances/fringe benefits that are found to be an established practice as of December 31, 1999. While these letters are invalid because they contravene the provisions of R.A. No. 6753, petitioners cannot be blamed for relying thereon because these were issued by the implementing agency of the law. Petitioners had no fault in giving faith and credence to the opinion of the DBM with respect to local water districts.

Third, as to the grant of COLA and other allowances such as medical, food gift, and rice allowances, the Court recognizes that good faith may be appreciated to excuse the payment of the disallowed benefits.

In *MIA,* the Court held that with regard to the disallowance of salaries, emoluments, benefits, and allowances of government employees, prevailing jurisprudence provides that recipients or payees need not refund these disallowed amounts when they received these in good faith. Government officials and employees who received benefits or allowances, which were disallowed, may keep the amounts received if there is no finding of bad faith and the disbursement was made in good faith.[36]

Thus, in that case, except for the unexplainable amount given to one employee, the government officers and employees therein were declared in good faith for the other benefits. Those who received the disallowed benefits were presumed to have acted in good faith when they allowed and/or received them.

Subsequently, in *ZCWD*, which involves a local water district, the Court held that the payees therein were not required to pay the disallowed COLA and AA benefits on the basis of good faith, to wit:

> Second, the back payment of the COLA and AA need not be refunded because at the time they were paid, there was no similar ruling like the MIA case, where it was held that integration was the general rule and, therefore, benefits were deemed integrated notwithstanding the absence of a DBM issuance. Prior to MIA, there had been no categorical pronouncement that, by virtue of Section 12 of the SSL, benefits were deemed integrated, without a need of a subsequent issuance from the DBM. Consequently, the officers who authorized the back payment of the COLA and AA and the employees who received them believing to be entitled thereto need not refund the same. They were in good faith as they were oblivious that the said payments were improper.[37]

Recently, in *Metropolitan Naga Water District v. Commission on Audit,*[38] which also deals with a local water district, it was ruled that the employees need not refund the amounts corresponding to the COLA they received because they had no participation in the approval thereof and were mere passive recipients without knowledge of any irregularity. Further, good faith was also appreciated in favor of the officers who approved the same because they merely acted in accordance with the resolution passed by its board authorizing the back payment of COLA to the employees. Moreover, at the time the disbursements were made, no ruling similar to *MIA* was yet

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[36] See supra note 18, at 342.
[37] Supra note 27, at 250.
[38] Supra note 28.

made declaring that the COLA was deemed automatically integrated into the salary notwithstanding the absence of a DBM issuance.

Based on the foregoing, good faith may be appreciated in favor of petitioners because at the time that they made the disallowed disbursement of COLA, medical, food gift, and rice allowances, there was still no definitive ruling or jurisprudence regarding the inclusion of these benefits; they merely relied on the DBM letters in good faith; and jurisprudence had consistently held that good faith may be appreciated to the government officers and employees that approved and received the disallowed benefits.

In conclusion, it is unfair to penalize public officials based on overly stretched and strained interpretations of rules, which were not that readily capable of being understood at the time such functionaries acted in good faith. If there is any ambiguity, which is actually clarified years later, then it should only be applied prospectively. A contrary rule would be counterproductive. It could result in paralysis, or lack of innovative ideas getting tried. In addition, it could dissuade others from joining the government. When government service becomes unattractive, it could only have adverse consequences for society.[39]

WHEREFORE, the petition is **PARTIALLY GRANTED**. The November 26, 2012 Decision and the November 20, 2013 Resolution of the Commission on Audit in Decision No. 2012-222 and Resolution No. 2013-194, respectively, are **AFFIRMED with MODIFICATION** in that the disallowed amount in Notice of Disallowance Nos. 07-001-(06) and 07-004-(06) dated October 4, 2007, need not be paid by petitioners.

SO ORDERED.

ALEXANDER G. GESMUNDO
Associate Justice

[39] *Philippine Economic Zone Authority v. Commission on Audit, et al.*, 797 Phil. 117, 142 (2016).

WE CONCUR:

LUCAS P. BERSAMIN
Chief Justice

ANTONIO T. CARPIO
Associate Justice

DIOSDADO M. PERALTA
Associate Justice

MARIANO C. DEL CASTILLO
Associate Justice

ESTELA M. PERLAS-BERNABE
Associate Justice

MARVIC M.V.F. LEONEN
Associate Justice

(No Part)
FRANCIS H. JARDELEZA
Associate Justice

ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

ANDRES B. REYES, JR.
Associate Justice

JOSE C. REYES, JR.
Associate Justice

RAMON PAUL L. HERNANDO
Associate Justice

ROSMARI D. CARANDANG
Associate Justice

AMY C. LAZARO-JAVIER
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I hereby certify that the conclusions in the above Resolution had been reached in consultation before the case was assigned to the writer of the opinion of the Court.

LUCAS P. BERSAMIN
Chief Justice

CERTIFIED TRUE COPY

EDGAR O. ARICHETA
Clerk of Court En Banc
Supreme Court