SUPREME COURT
THIRD DIVISION

JOSE VICENTE SANTIAGO, IV,
***Petitioner*,**

-versus-

G.R. No. 84578
September 7, 1989

BONIER DE GUZMAN, GUZMAN INSTITUTE OF TECHNOLOGY, LABOR ARBITER PERLITA B. VELASCO AND NATIONAL LABOR RELATIONS COMMISSION,
***Respondents*.**
x----------x

D E C I S I O N

FERNAN, *C.J.*:

Article 24 of the Civil Code of the Philippines provides that "(I)n all contractual, property and other relations, when one of the parties is at a disadvantage on account of his moral dependence, ignorance, indigence, mental weakness, tender age or other handicap, the courts must be vigilant for his protection." We heed this dictum in the instant petition.

The present controversy stems from the complaint for illegal dismissal filed before the respondent National Labor Relations

Commission (NLRC) on July 15, 1986 by petitioner Jose Vicente Santiago IV against private respondents Bonier de Guzman and Guzman Institute of Technology. In his complaint docketed as NLRC Case No. 7-2747-86 and assigned to Labor Arbiter Perlita V. Velasco for hearing and disposition, petitioner Santiago alleged in the main that he was an instructor at the Guzman Institute of Technology during the periods from June 1955 to March 1956, June 1956 to March 1957, and June 1976 until November 10, 1984, when he reported for the second semester of the school year 1984-1985 but was not given any teaching load or assignment for said semester; and that by this omission private respondents indirectly and in bad faith terminated his employment without cause and notice. He therefore prayed that private respondents be ordered to reinstate him to his former position at the same rate of salary as of the time of his dismissal; should private respondents propose to retire him, for the former to pay the full retirement pay plus damages; and in either case, to pay damages due to loss of income in the amount of P34,334.30; P27,103.51 for actual damages, P60,209.19 for moral damages; P4,022.78 for loss of income from 13th month pay and Wage Order No. 3; and the accrued money value of his Service Incentive Leave from November 10, 1984 to June, 1986 in the amount of P2,866.00. In addition, he prayed for such further and other relief as may be deemed just and equitable.[1]

Thereafter, the parties submitted for approval a Compromise Agreement dated September 29, 1986, the central text of which reads as follows:

"**COMPROMISE AGREEMENT**

x x x

1. That respondent hereby agrees to pay as separation pay the sum of SIX THOUSAND SIXTEEN (sic) AND SIXTY FOUR CENTAVOS (P6,016.64) to complainant within fifteen (15) days from the signing of this Compromise Agreement;

2. That respondent hereby pays complainant the amount of NINE HUNDRED NINETY FIVE PESOS AND FORTY

CENTAVOS (P995.40) as service incentive leave pay from 1981-1984;

3. That complainant hereby releases and discharges respondent from any money claim whatsoever in connection with his previous employment with respondent school;

4. That in the event parties fails (sic) to comply with the terms and conditions of this Compromise Agreement, complainant is entitled to a Writ of Execution."[2]

On November 26, 1986, petitioner filed two pleadings with the Labor Arbiter; namely: (1) Motion for Write (sic) of Execution dated November 24, 1986 and (2) Complainant Position Paper dated November 15, 1986.

On November 28, 1986, finding the Compromise Agreement to be in order and not contrary to law or public morals, Labor Arbiter Velasco issued an Order approving the same. Upon receipt of a copy of said Order by ordinary mail on December 11, 1986, petitioner filed on the same day a "motion to correct errors in the compromise agreement and to resolve the issue of illegal dismissal." He subsequently filed an undated Manifestation, a motion on breach of agreement dated January 21, 1987 and a motion dated March 16, 1987 wherein he submitted certain exhibits and rested his case.

On March 30, 1987, Labor Arbiter Velasco issued an Order dismissing the "Motion on Breach of Agreement" for being moot and academic and declaring the case settled, closed and terminated, upon a finding that therein complainant "has received the amount of SEVEN THOUSAND TWELVE PESOS AND 04/100 (P7,012.04) from respondents in full settlement of his claims pursuant to the compromise agreement and the Order dated November 28, 1986."[3]

From this Order, petitioner filed an Exception and Notice of appeal to the NLRC on the grounds of fraud and serious errors in the computation of the compromise agreement and failure of the labor arbiter to give due consideration to his claim for illegal dismissal.[4] Private respondents opposed the motion.

On September 30, 1987, the NLRC Second Division promulgated a resolution affirming the assailed Order and dismissing the appeal for being moot and academic. Petitioner's motion for reconsideration and new trial was denied for lack of merit in a resolution dated December 14, 1987. Petitioner then filed a pleading denominated "Exception and Notice of Appeal" wherein he gave notice of his intention to appeal the case to the then Intermediate Appellate Court, now Court of Appeals, which in turn certified the case to this Court for appropriate action.[5]

Pursuant to this Court's Resolution of March 23, 1988, petitioner filed a petition for review, which, however, did not comply with the Rules. We therefore resolved to refer petitioner to the Citizens Legal Assistance Office (CLAO) for appropriate legal assistance.[6] After several extensions, the CLAO filed a Revised Petition for Review on Certiorari, presenting the following issues for resolution:

1. WHETHER OR NOT THE LABOR ARBITER'S DECISION BASED ON THE COMPROMISE AGREEMENT IS VALID.

2. SINCE THE COMPROMISE AGREEMENT WAS NOT VALID, WHETHER PETITIONER IS ENTITLED TO SEPARATION PAY AND BACKWAGES AND DAMAGES.

3. WHETHER PETITIONER SANTIAGO WAS DENIED DUE PROCESS BOTH BY HIS EMPLOYER, RESPONDENT LABOR ARBITER AND RESPONDENT NLRC.[7]

Petitioner contends basically that he was denied due process of law when both the Labor Arbiter and the NLRC ignored his pleas that corrections be made in the computation of his separation and service incentive leave pays and that the issue of illegal dismissal be heard and determined. Both public and private respondents, on the other hand, maintain that the Compromise Agreement which was allegedly entered into by petitioner voluntarily and willingly put an end to the controversy and that having accepted the benefits therefrom, petitioner cannot now back track to impugn the same.

We find for petitioner.

Settlement of disputes by way of compromise whereby the parties, by making reciprocal concessions, avoid a litigation or put an end to one already commenced,[8] is an accepted, nay desirable and encouraged practice in courts of law and administrative tribunals. Toward this end, the Rules governing proceedings before the Labor Arbiter exhort, thus:

> Section 1. Initial conference/hearing. — Within two (2) days from receipt of an assigned case, the Labor Arbiter shall summon the parties to an initial conference/hearing for the purpose of amicably settling the case upon a fair compromise or determining the real parties in interest, defining and simplifying the issues in the case and threshing out other preliminary matters.

Should the parties arrive at any agreement as to the whole or any part of the dispute, the same shall be reduced to writing and signed by the parties before the Labor Arbiter. The settlement shall be approved by the Labor Arbiter after being satisfied that it was voluntarily entered into by the parties and after having explained to them the terms and consequences thereof.

A compromise agreement entered into by the parties not in the presence of the Labor Arbiter before whom the case is pending shall be approved by him if, after confronting the parties, particularly the complainants, he is satisfied that they understand the terms and conditions of the settlement and that it was entered into freely and voluntarily by them.[9]

Under these Rules, it is incumbent upon the Labor Arbiter not only to persuade the parties to settle amicably, but equally to ensure that the compromise agreement entered into by them is a fair one and that the same was forged freely, voluntarily and with a full understanding of the terms and conditions embodied therein as well as the consequences thereof. The latter onus devolving upon the Labor Arbiter gains considerable significance when taken in conjunction with Article 222 of the Labor Code of the Philippines, as amended, which allows non-lawyers to appear before the labor tribunal in representation of their own selves.

Applied to the case at bar, the conclusion reached is that Labor Arbiter Velasco was remiss in her above-stated duty when she approved the Compromise Agreement in question and when she subsequently declared the case closed and terminated. The different pleadings filed by petitioner after the submission of the compromise agreement for approval and even after the issuance of the Order approving said compromise agreement vividly demonstrate that petitioner did not understand the terms and conditions embodied in the compromise agreement as well as the consequences thereof. Illustrative of this non-comprehension is the contradictory pleadings denominated as "Motion for Writ of Execution"[10] and "Complainant Position Paper"[11] filed by petitioner prior to the approval of the compromise agreement and the Motion to Correct Errors in the Compromise Agreement and to Resolve Issue of Illegal Dismissal[12] and Motion on Breach of Agreement.[13]

It must be observed that the motion for a writ of execution was filed on November 26, 1986, or two (2) days before the compromise agreement was approved, when there was nothing yet to execute. The Complainant Position Paper, although dated November 15, 1986, was likewise filed on November 26, 1986. These two (2) contradictory pleadings are sufficient to engender the suspicion that petitioner, a college instructor and a non-lawyer, did not fully understand the terms and conditions contained in, and the consequences of entering into the compromise agreement. Confronted with this ambivalent stance on the part of petitioner, it became incumbent upon Labor Arbiter Velasco, if she was to satisfy herself that "the parties, particularly the complainant understood the terms and conditions of the settlement" to call the parties for this purpose and to explain the import of the settlement. This was not done; instead the compromise agreement was approved notwithstanding indications that complainant therein did not fully understand the terms and conditions thereof. Certainly, this act is characterized by grave abuse of discretion calling for the corrective writ of certiorari.

The situation was exacerbated when the Labor Arbiter did not rule upon the Motion to Correct Errors in the Compromise Agreement and to Resolve the Issue of Illegal Dismissal. This motion sheds light on the seeming ambivalent position taken by petitioner. Said motion alleged in part:

"1. That complaint filed by undersigned consists of two (2) issues: (a) termination and/or separation pay and (b) dismissal without due written notice as provided by law (Art. 278 (b) and Sec. 2, Rule XIV, Book V.

"2. That the termination and/or separation pay was tentatively covered by a compromise agreement dated September 29, 1986 and filed with this Honorable Office on October 29, 1986 which contain grossly inaccurate computations.

x x x

"8. That the second issue of illegal dismissal or violation of the provisions of labor code for failure of respondent to notify in writing the termination of employment of complainant."[14]

It is quite evident from these allegations that to petitioner's mind, what he was settling when he entered into the compromise agreement was merely his claims for termination and service incentive leave pays, but not his claim for illegal dismissal, which partial settlement is allowed and recognized by the Rules of the NLRC above-quoted. Such intention to settle partially, however, gave rise to complications, since the stipulation contained in the compromise agreement whereby petitioner released and discharged private respondents from any money claim whatsoever in connection with his previous employment with respondent school cannot be given effect as such waiver was made without a full understanding of the right being relinquished; and further, that there was absolutely no meeting of minds between the parties as to the object of compromise, and consequently, no compromise agreement in law to speak of.

Indeed, by giving it a little more thought and attention, respondent Labor Arbiter could have easily treated the motion under consideration as a repudiation of the compromise agreement on the ground of mistake so as to vitiate consent under Article 2038 of the Civil Code.[15] The same can be said of the Motion on Breach of Agreement wherein petitioner asked for the setting aside of the compromise agreement for failure of private respondents to abide by

it in good faith, which is a recognized ground for repudiation of compromise agreement under Article 2041 of the Civil Code.[16] Not having done so, and by simply ignoring the contentions of petitioner, respondent labor arbiter had effectively and in a substantial manner denied petitioner his right to due process.

Respondent Labor Arbiter relied heavily on the fact that petitioner received from private respondents the amount stipulated in the compromise agreement. We have ruled that the acceptance of separation pay is not a bar to contesting the legality of one's dismissal. Separated employees need the money to tide them over until they can find other employment pending their reinstatement.[17]

The NLRC in affirming the Labor Arbiter's Order of March 30, 1987 proceeded from the wrong assumption that petitioner is a lawyer, thus:

> "It is safe to assume that complainant is a lawyer from the complaint, thus:
>
> > 'COMES now above-named complainant, thru and by his attorney, and to this Honorable Commission respectfully allege:'
> >
> > since he signed the complaint itself, and the subsequent pleadings filed. As such he is aware of the full impact of the Compromise Agreement he entered into. His assent to receive as compromise separation pay necessarily follows his agreement in the severance of his employer-employee relationship. He likewise released and discharged, after agreeing to receive the amount of P6,016.64 as separation pay and P995.40 as incentive leave pay, respondent from any money claim whatsoever in connection with his employment with respondent."[18]

Considering, as adverted to above, that non-lawyers are allowed to appear before the labor tribunal on their own representation, it was a grave abuse of discretion for respondent NLRC to simply assume a fact material to the determination of the controversy and to accept it as gospel truth. The Resolution of the NLRC dated September 30,

1987, being based on a false assumption, speculation and conjecture, should be, as it is hereby set aside.

WHEREFORE, the Orders of November 28, 1986 and March 30, 1987 issued by respondent Labor Arbiter as well as the resolutions of the respondent NLRC dated September 30, 1987 and December 14, 1987 are hereby set aside. The case is ordered remanded to the Labor Arbiter for trial on the merits of petitioner's claims for illegal dismissal and separation pay, with instructions that this case be given priority considering the health and age of the petitioner. The amount received by petitioner shall be deducted from the correct amount of separation pay due him. No pronouncement as to costs.

SO ORDERED.

Gutierrez, Jr., Bidin and Cortes, *JJ.*, concur.
Feliciano, *J.*, is on leave.

---

[1] Annex "A" of the Revised Petition, pp. 49-50, Rollo.
[2] Annex "B", Revised Petition, p. 53, Rollo.
[3] Annex "J", Revised Petition, p. 86, Rollo.
[4] Annex "K", Revised Petition, pp. 88-93, Rollo.
[5] Resolution dated March 3, 1988 in CA-G.R. SP No. 14029, Associate Justice Segundino G. Chua, ponente, concurred in by Associate Justices Fidel P. Purisima and Nicolas P. Lapena, Jr.
[6] Resolution of May 11, 1988, p. 19, Rollo.
[7] p. 41, Rollo.
[8] Art. 2028, Civil Code of the Philippines.
[9] Italics supplied.
[10] Annex "C", Revised Petition, p. 54, Rollo.
[11] Annex "D", Revised Petition, p. 55, Rollo.
[12] Annex "F", Revised Petition, p. 66, Rollo.
[13] Annex "H", Revised Petition, p. 76, Rollo.
[14] pp. 66-67, Rollo.
[15] Art. 2038 provides that "A compromise in which there is mistake, fraud, violence, intimidation, undue influence, or falsity of documents, is subject to the provisions of Article 1330 of this Code."
[16] Art. 2041 states: "If one of the parties fails or refuses to abide by the compromise, the other party may either enforce the compromise or regard it as rescinded and insist upon his original demand."
[17] L.R. Aguinaldo & Co. vs. Court of Industrial Relations, 82 SCRA 309.

[18] Resolution of September 30, 1987, penned by Commissioner Domingo H. Zapanta, and concurred in by Presiding Commissioner Daniel M. Lucas, Jr. and Commissioner Oscar N. Abella, p. 99, Rollo.
