EXECUTIVE SUMMARY

INTRODUCTION

The Manila International Airport Authority (MIAA), which was created by virtue of Executive Order (EO) 778, s. 1982, otherwise known as the “Charter of the Manila International Airport Authority,” is an agency under the Executive Department attached to the Department of Transportation (DOTr), originally tasked to, among others, formulate a comprehensive and integrated policy and program for the Manila International Airport (now the Ninoy Aquino International Airport) and other airports in the Philippines, and to implement, review and upgrade such policy and program periodically; and control, supervise, construct, maintain, operate and provide such facilities or services as shall be necessary for its efficient functioning.

MIAA’s Charter was amended by EO 903 and 909 dated July 21, 1983 and September 16, 1983, respectively. This was further amended by EO 298 issued on July 26, 1987. The amendments were the following: (a) modified the composition of the Authority’s Board of Directors to afford better coordination; (b) increased the capital contribution of the National Government; (c) reduced the contribution of the Authority to the General Fund from 65 per cent to 20 per cent of its annual operating income excluding utilities and terminal fee collections; and (d) appointed the Government Corporate Counsel and/or the Solicitor General as legal counsel of the Authority.

The MIAA is headed by a General Manager and assisted by a Senior Assistant General Manager and three Assistant General Managers: Finance and Administration, Operations, and Security and Emergency Services Office. It is governed by a Board of Directors composed of nine members (seven from the government and two from the private sector) who is chaired by the Secretary of DOTr.

As of December 31, 2019, the Authority has 1,450 organic personnel, 2,762 contract of service and 85 job order personnel. It has an approved Corporate Operating Budget for calendar year 2019 amounting to P16.979 billion.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

<table>
<thead>
<tr>
<th></th>
<th>2019 (As restated)</th>
<th>2018</th>
<th>Increase/ (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>61,016,578</td>
<td>59,324,707</td>
<td>1,691,871</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td>14,734,484</td>
<td>12,153,254</td>
<td>2,581,230</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>46,282,094</td>
<td>47,171,453</td>
<td>(889,359)</td>
</tr>
</tbody>
</table>
Comparative Results of Operation

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income</td>
<td>15,168,985</td>
<td>14,367,591</td>
<td>801,395</td>
</tr>
<tr>
<td>Share of the National Government (NG)</td>
<td>(1,789,453)</td>
<td>(1,713,624)</td>
<td>75,829</td>
</tr>
<tr>
<td>Operating Income After Share of the NG</td>
<td>13,379,532</td>
<td>12,653,967</td>
<td>725,566</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>(6,546,260)</td>
<td>(6,246,154)</td>
<td>300,106</td>
</tr>
<tr>
<td>Income from Operations</td>
<td>6,833,272</td>
<td>6,407,813</td>
<td>425,460</td>
</tr>
<tr>
<td>Non-Operating Income (Expenses)</td>
<td>339,069</td>
<td>1,957,399</td>
<td>(1,618,330)</td>
</tr>
<tr>
<td>Income Before Income Tax</td>
<td>7,172,341</td>
<td>8,365,212</td>
<td>(1,192,870)</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>(2,153,175)</td>
<td>(1,983,039)</td>
<td>170,136</td>
</tr>
<tr>
<td>Net Income</td>
<td>5,019,166</td>
<td>6,382,173</td>
<td>(1,363,006)</td>
</tr>
</tbody>
</table>

**SCOPE AND OBJECTIVES OF AUDIT**

Our audit covered the examination, on a test basis, of the accounts and transactions of MIAA for the period January 1 to December 31, 2019 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2019 and 2018. Also, we conducted our audits to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

**INDEPENDENT AUDITOR’S OPINION ON THE FINANCIAL STATEMENTS**

We rendered a qualified opinion on the fairness of presentation of the financial statements because the qualitative characteristic of verifiability and faithful representation of the following accounts could not be ascertained:

a) Unearned Revenue account amounting to P148.364 million due to the existence of unsubstantiated amount of P33.215 million covering the balances in 2004 and prior years; and

b) The Passenger Boarding Bridges classified as Airport Equipment in the amount of P239.724 million and the related Accumulated Depreciation account due to the unsubstantiated discrepancy between the General Ledger and the Lapsing Schedule amounting to P18.039 million resulting in the understatement of the Airport Equipment account and the overstatement of the related Accumulated Depreciation account by the same amount which is not in accordance with Philippine Accounting Standard (PAS) 1 and the Conceptual Framework for Financial Reporting.

The Audit Team was not able to validate the Lapsing Schedule because of the absence of detailed computation of the depreciation expense for 2018.
Also, the non-monitoring of compliance with the Concession Contracts and MIAA Administrative Order No. 1, s. 2000 by concessionaires subject to payment of Concession Privilege Fee (CPF) based on percentage of gross sales (GS-based CPF) coupled by the inadequate guidelines on the billing and collection of the CPF resulted in non-payment/under-payment by some concessionaires, and ultimately in the understatement of income from CPF.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For the above observations, which caused the issuance of a qualified opinion, we recommended that Management:

On Unearned Revenue:

Direct the Accounting Division to document the lump sum amount and make adjustments in the books, if necessary.

On Passenger Boarding Bridges:

a) Conduct a thorough review and verification of the discrepancy and effect appropriate adjustments;

b) Submit the 2018 lapsing schedule and other supporting documents; and

c) Reconcile records regularly to ensure that the recorded transactions are correct and updated.

On Concession Privilege Fee:

Immediately address the deficiencies noted and revisit the existing policies and monitoring activities and/or issue additional guidelines on CPF transactions.

The other significant observations and recommendations are as follows:

1. The balance of the Advances to Contractors account of P125.149 million is understated by P2.621 million due to the erroneous recording of Input VAT in the payment of progress billings.

   We recommended that Management direct the Accounting Division to make the necessary adjustment in the books to correct the error.

2. The uniform and accurate gathering of data on aircrafts and passengers’ movement in all NAIA terminals required under MIAA Memorandum Circular (MC) No. 06-M (s. 2016) was not properly implemented resulting in erroneous and unreliable reports, hence the correctness of the Passenger Service Charge (PSC) collected and reported by the Airline Companies (ACs) remained unvalidated.

   We recommended that Management:
a) Direct the concerned officials/personnel to strictly follow and implement MIAA MC No. 06-M (s. 2016);

b) Introduce amendments/revisions to MIAA MC No. 06-M, if necessary, so that accurate data on passengers’ flight and passenger movement can be attained, which can be used in the validation of the Remittance Reports of the AC; and

c) Adopt a good monitoring system in the implementation of MIAA MC No. 06-M and other guidelines related thereto.

3. MIAA properties with total carrying amount of P36.150 million, substantial value of which have remaining useful life of more than 50 per cent of their economic useful life, were auctioned and awarded to buyers for only P5.447 million based on junk/scrap price resulting in a net loss of P30.703 million. Moreover, MIAA’s disposal procedure was not in compliance with applicable guidelines, casting doubt on the propriety and regularity of the disposal transactions.

We recommended that Management:

a) Conduct an investigation and impose appropriate sanctions on the officials/personnel found remiss/liable for the improper disposal of the assets that resulted in financial loss to the Authority;

b) Comply with the guidelines prescribed in the disposal of government properties; and

c) Craft/formulate a policy on disposal of MIAA properties anchored from the existing disposal manuals and other related laws, rules and regulations.

4. The computerization project intended primarily to address the deficiencies of the existing manual operations/processes particularly on the Authority’s revenue related transactions remained uncompleted despite the lapse of two years, thereby delaying the attainment of the Project’s objectives. Also, MIAA paid the Contractor the full cost of the delivered items when the contract provides only for 90 per cent payment prior to the project’s full integration.

We recommended that Management direct the Management Information System Division to:

a) Demand from the Contractor any undelivered/uncompleted work/deliverables;

b) Coordinate with the officials/personnel involved in the Project and take immediate action on the issue/concern raised; and

c) Effect the roll-out of the project as soon as completed.

5. Management did not terminate the contract on the Rehabilitation of NAIA Terminal 2 Project with a contract cost of P604.657 million at the time that the Contractor’s negative slippage reached 15.31 per cent in July 2019 and despite continuous incurrence of delay which peaked at 67.06 per cent as of December 31, 2019,
contrary to the provisions of Annex I of the Implementing Rules and Regulations (IRR) of RA 9184. This resulted in the extension of the construction period prolonging the inconvenience of passengers/terminal users, likewise exposing MIAA to complaints and/or negative comments.

We recommended that Management take all appropriate actions and remedies to ensure the completion of the project the soonest time possible. Management should likewise enforce the provisions of the contract and adhere to the pertinent provisions of the IRR on the implementation of the project.

SUMMARY OF UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

The total unsettled audit suspensions, disallowances and charges issued in the audit of various transactions of MIAA amounted to P58.737 million as of December 31, 2019, details of which are included in Part II of this report.

STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS

Of the twenty (21) audit recommendations embodied in the CY 2018 Annual Audit Report, fourteen (14) were implemented, four (4) were partially implemented and three (3) were not implemented. Details are presented in Part III of this Report.