EXECUTIVE SUMMARY

INTRODUCTION

The Manila International Airport Authority (the Authority or MIAA), which was created by virtue of Executive Order (EO) No. 778, series of 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 (NAIA)] 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 Nos. 903 and 909 dated July 21, 1983 and September 16, 1983, respectively. This was further amended by EO No. 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, 2020, the Authority has 1,386 organic personnel, 2,606 contract of service and 80 job order personnel. It has an approved Corporate Operating Budget for calendar year 2020 amounting to P9.300 billion.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019 (As restated)</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>52,407,645</td>
<td>61,316,472</td>
<td>(8,908,827)</td>
</tr>
<tr>
<td>Liabilities</td>
<td>6,394,383</td>
<td>14,703,984</td>
<td>(8,309,601)</td>
</tr>
<tr>
<td>Equity</td>
<td>46,013,262</td>
<td>46,612,488</td>
<td>(599,226)</td>
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</table>
Comparative Results of Operation

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income</td>
<td>5,096,135</td>
<td>15,195,523</td>
<td>(10,099,388)</td>
</tr>
<tr>
<td>Share of the National Government (NG)</td>
<td>(563,051)</td>
<td>(1,789,453)</td>
<td>(1,226,402)</td>
</tr>
<tr>
<td>Operating Income After Share of the NG</td>
<td>4,533,084</td>
<td>13,406,070</td>
<td>(8,872,986)</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>(5,915,766)</td>
<td>(6,535,331)</td>
<td>(619,565)</td>
</tr>
<tr>
<td>Income (Loss) from Operations</td>
<td>(1,382,682)</td>
<td>6,870,739</td>
<td>(8,253,421)</td>
</tr>
<tr>
<td>Non-Operating Income (Expenses)</td>
<td>369,329</td>
<td>339,125</td>
<td>30,204</td>
</tr>
<tr>
<td>Loss Before Income Tax</td>
<td>(1,013,353)</td>
<td>7,209,864</td>
<td>(8,223,217)</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>(37,760)</td>
<td>(2,153,175)</td>
<td>(2,115,415)</td>
</tr>
<tr>
<td>Net Income (Loss)</td>
<td>(1,051,113)</td>
<td>5,056,688</td>
<td>(6,107,801)</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, 2020 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, 2020 and 2019. 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 Authority’s land assets are not duly accounted by specific Transfer Certificate of Title (TCT), area and cost/value that would tally with the amount of P14.789 billion presented in the financial statements. Consequently, sufficient evidence was not obtained to conclude on the completeness and valuation of the reported land assets as Property and Equipment (PE) and Investment Property.

The PE, net of land assets, amounting to P41.730 billion, with carrying amount of P21.635 billion, may not be a faithful representation of portions of the MIAA’s assets because the completeness and their existence could not be validated due to the non-submission of the Report on Physical Count of PPE (RPCPPE), showing the quantity per Property Card and per Physical Count, which precluded the determination of the total value of PE counted and still in good condition, and non-reconciliation of the PE per count and per books of accounts.

The Authority’s Trade Receivables (TRs) totaling P3.737 billion were not properly assessed to determine current/updated evidence of impairment as required under Philippine Financial Reporting Standard (PFRS) 9. Thus, the amortized cost of P2.444 billion could be more than its recoverable amount.
Total Rent/Lease Income of P1.610 billion includes operating lease income which is not recognized on a straight-line basis over the lease term as required under PFRS 16. The waiver of rental charges to concessionaires in all NAIA Terminals from March 15, 2020 to June 30, 2021 was also not accounted as lease modification despite the change in consideration for the lease that was not part of the original terms and conditions of the lease.

The use of Point of Sale (POS) application system of concessionaires’ data integrated with Tenant Sales Monitoring System (TSMS) of MIAA is not working effectively, as a result, the reported Concession Privilege Fees (CPF) income amounting to P176.854 million is not faithfully represented.

The Unearned Revenue/Income account amounting to P135.278 million which includes a lump-sum amount of P33.215 million without details, described as beginning balance of January 1, 2015, may not be a faithful representation of portion of Authority’s liability or obligation.

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

On Land Assets:

a. Account all the land assets owned by MIAA by individual/specific TCT, areas and valuation (per TCT), and ensure that the amount of land assets presented in the financial statements is complete and accurate;

b. Resolve or clear the annotation on the levy and sale related to the decided cases on Real Property Tax to secure MIAA’s ownership on the subject lot;

c. Apprise the Audit Team on the updated status of all MIAA land assets covered by Presidential Proclamations (PPs), and the proper recognition of at least P15.353 million remittances from the National Housing Authority relative thereto;

d. Issue a policy guidelines on the accounting, reporting and monitoring of land assets disposed/covered by PPs;

e. Reconcile the data on land assets per records of Accounting Division and Business and Real Estate Investment Development Division and prepare adjusting entry, if warranted; and

f. Take appropriate actions to expedite the titling of land in MIAA’s name to dispel doubts as to their legal ownership.

On Property and Equipment (PE):

a. Comply with COA Circular No. 2020-006, dated January 31, 2020, on the guidelines and procedures in coming up with reliable PE balances that are verifiable as to existence, condition and accountability;
b. Submit the RPCPPE for CY 2020 in prescribed format and duly signed by the Inventory Committee and Approved by the Agency Head;

c. Account and reconcile the variance between the General Ledger and 2020 PE Lapsing Schedule, and effect adjustments in its books of accounts; and

d. Submit the 2018 Lapsing Schedule, other pertinent documents and data for the Audit Team to verify the correctness of the adjusting entries made on the Depreciation Expense and Accumulated Depreciation accounts.

On Trade Receivables (TRs):

a. Revisit its established Expected Credit Loss (ECL) provision matrix or conduct an assessment at the end of each reporting period to determine the sufficiency of Allowance for Impairment (AFI) to ensure that the valuation of receivables at amortized cost will not exceed the recoverable amount; and

b. Resolve the pending issues such as, adjustments on rental rates and area which are awaiting resolution from Concession Management Division and pursue collection of the accounts when decided as valid receivables.

On Rent/Lease Income:

Ensure that MIAA's accounting policy comply with PFRS 16 by recognizing Rent/Lease Income based on straight-line basis over the lease term, including the modification of lease effective March 15, 2020.

On Concession Privilege Fees (CPFs):

a. Ensure that the POS and TSMS are working effectively, so that the monthly sales summary report of concessionaires subject to payment of Gross Sales (GS)-based CPFs could be generated from the TSMS and used as basis of the Accounting Division in rendering complete bills for CPFs; and

b. Determine and monitor the concessionaires which are operating and with unremitted GS-based CPFs and collect any unremitted CPFs.

On Unearned Revenue/Income:

Review the transactions pertaining to the account to ensure that only those existing and valid unearned income are presented in the financial statements as of December 31, 2020, and prepare the necessary adjusting entries.

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, 2020, details of which are included in Part II of this Report.
STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS

Of the 23 audit recommendations contained in the CY 2019 Annual Audit Report, 8 were implemented, 13 were partially implemented and 2 were not implemented. Details are presented in Part III of this Report.