EXECUTIVE SUMMARY

INTRODUCTION

The Manila International Airport Authority (MIAA) was created by virtue of Executive Order (EO) No. 778, series of 1982, otherwise known as the “Charter of the Manila International Airport Authority”. It is an agency attached to the Department of Transportation (DOTr), tasked to, among others, formulate a comprehensive and integrated policy and program for the Ninoy Aquino International Airport (NAIA)¹ 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 later amended by EO Nos. 903, 909 and 298 dated July 21, 1983, September 16, 1983, and July 26, 1987, respectively. The amendments were the following: (a) modified the composition of the Board of Directors to afford better coordination; (b) increased the capital contribution of the National Government; (c) reduced the contribution of the MIAA 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 MIAA.

The MIAA is headed by a General Manager, and assisted by a Senior Assistant General Manager and five Assistant General Managers (AGM) namely: 1) AGM for Finance and Administration; 2) AGM for Operations; 3) AGM for Engineering; 4) AGM for Security and Emergency Services; and 5) AGM for Airport Development and Corporate Affairs. 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 the DOTr.

As of December 31, 2021, the MIAA has 1,354 organic personnel, 2,568 contract of service and 77 job order personnel. It has an approved Corporate Operating Budget for calendar year 2021 amounting to P7.742 billion.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020 (As restated)</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>49,249,842</td>
<td>52,543,898</td>
<td>(3,294,056)</td>
</tr>
<tr>
<td>Liabilities</td>
<td>5,336,043</td>
<td>6,261,655</td>
<td>(925,612)</td>
</tr>
<tr>
<td>Equity</td>
<td>43,913,799</td>
<td>46,282,243</td>
<td>(2,368,444)</td>
</tr>
</tbody>
</table>

¹ Formerly Manila International Airport
Comparative Results of Operation

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>4,467,934</td>
<td>5,547,621</td>
<td>(1,079,687)</td>
</tr>
<tr>
<td>Expenses</td>
<td>(6,262,169)</td>
<td>(6,021,403)</td>
<td>240,766</td>
</tr>
<tr>
<td>Loss Before Tax</td>
<td>(1,794,235)</td>
<td>(473,782)</td>
<td>(1,320,453)</td>
</tr>
<tr>
<td>Income Tax Expenses</td>
<td>(140,765)</td>
<td>(37,760)</td>
<td>103,005</td>
</tr>
<tr>
<td>Loss After Tax</td>
<td>(1,935,000)</td>
<td>(511,542)</td>
<td>(1,423,458)</td>
</tr>
<tr>
<td>Subsidy to Other Funds</td>
<td>(587,571)</td>
<td>(563,051)</td>
<td>(24,520)</td>
</tr>
<tr>
<td>Subsidy from National Government</td>
<td>70,591</td>
<td>195,615</td>
<td>(125,023)</td>
</tr>
<tr>
<td>Net Income (Loss)</td>
<td>(2,451,980)</td>
<td>(878,978)</td>
<td>(1,573,002)</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, 2021 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, 2021 and 2020. 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 did not express an opinion on the fairness of presentation of the financial statements because the MIAA’s Trade Receivables totaling P4.322 billion were not properly assessed to determine current/updated evidence of impairment as required under Philippine Financial Reporting Standard 9. Thus, the amortized cost of P2.956 billion could be more than its recoverable amount.

The balance of Property and Equipment (PE) account, except land, totaling P42.144 billion, with carrying amount of P21.220 billion may not be a faithful representation of MIAA’s assets because the completeness and/or existence thereof could not be validated due to improper conduct of physical count, and non-reconciliation of the PE per count and per books of accounts, showing a variance of P627.434 million. Unserviceable properties with carrying amount of P5.158 million is for derecognition.

The correctness/completeness of total Passenger Service Charge (PSC) collected totaling P694.578 million, accrued/recognized as Transportation System Fee (MIAA’s share), Due to Treasurer of the Philippines and Due to National Government Agencies amounting to P576.658 million, P87.290 million and P30.630 million, respectively, was not ascertained because of the lack of reliable data on aircraft and passengers movement, particularly the number of PSC-paying passengers.

The completeness of the Concession Privilege Fee (CPF) income amounting to P45.406 million could not be validated because of the lack of reliable source of data where the CPF collections and accruals can be traced. The Tenant Sales Monitoring System
(TSMS) of concessionaires’ Point of Sales (POS) integrated in Financial Management Information System (FMIS) is not working effectively, showing inconsistencies when compared with the recorded CPFs during the test of transactions conducted.

MIAA’s Withholding Tax at Source account balance of P197,868 million as of December 31, 2021 may not be a faithful representation of the portion of MIAA’s assets because the existence-validity could not be verified due to the unsupported Creditable Withholding Tax amounting to P88,334 million.

The total land area owned by MIAA per Subsidiary Ledger (SL) prepared by Accounting Division (AD) and per Land Asset Inventory (Inventory) prepared by Business and Investment Development Division (BIDD) are not reconciled, showing a variance of 291,257 sq. m. There are also transactions which may have effect on the Land account balance. As a result, the correctness/completeness of the total land area and the value of land assets presented in the financial statements (FS) amounting to P14,790 billion was not ascertained.

The Due to BIR account amounting to P67,226 million may not be a faithful representation of the claims of the Bureau of Internal Revenue (BIR) against MIAA, because of the variance of P23,362 million between the balance of the account per its books of accounts and the amount remitted to the BIR per related returns it filed for the quarter or month ending December 31, 2021.

For the above observations, we recommended that Management:

On Trade Receivables (TRs):

a. Revisit MIAA’s established expected credit loss provision matrix or conduct an assessment at the end of each reporting period to determine the sufficiency of Allowance for Impairment to ensure that the valuation of receivables at amortized cost will not exceed the recoverable amount;

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

c. Determine the correct amount of receivables from the Philippine Aerospace Development Corporation (PADC), exclude in the Statement of Account (SOA) those invalid TRs being billed from PADC, if any, and advice the latter on its claim that it already paid portion of the accounts included in the SOA.

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 property, plant and equipment balances that are verifiable as to existence, condition and accountability;

b. Require the Property Division to prepare a List of Non-Existing/Missing PE for submission to the Accounting Division (AD) so that the AD will have a basis in derecognizing all the non-existing/missing PE;
c. Require the Inventory Team to complete the inventory-taking process and the AD to ensure that the balance of PE per books of accounts, per count and per stock cards are reconciled, including the derecognition of non-existing/missing PE; and

d. Derecognize from the books of accounts the unserviceable and condemned properties pursuant to paragraph 67 of Philippine Accounting Standard 16.

On Passenger Service Charge (PSC):

a. Revisit MIAA’s existing policies on the Systems and Procedures, Reportorial Requirements, Monitoring and the Statement of Responsibilities related to the collection of PSC to ensure that Management will achieve a reliable data on aircraft and passengers movement that is useful in generating financial data to assist the AD in capturing PSC collections accurately and detect errors on the Remittance Reports submitted by Air Carriers, to include data on the following:
   i. Departing flights per Terminal and General Aviation Area;
   ii. Total passengers per flight with details as to paying and exempted from PSC payments; and
   iii. Other information relevant to financial reporting.

b. Monitor the effectiveness of such policy regularly to ensure that the objective of the policy is met; and

c. Identify the persons responsible for the specific process, so that Management can easily identify the personnel liable in case under collection and other instances of losses of assets arise.

On Concession Privilege Fees (CPF)

a. Ensure that the POS and TSMS are working effectively by updating/correcting its functionalities so that the monthly sales summary report of concessionaires could be generated from the FMIS and used as basis of the Accounting Division in rendering bills for CPF completely/accurately and on a timely basis;

b. Maximize and strictly monitor the use of the FMIS in generating reliable internal financial reports that will be used in recording CPF transactions, otherwise MIAA will not fully benefit from the FMIS Project;

c. Analyze the discrepancy between POS summary report and amount collected per AD; and

d. Determine and monitor the concessionaires with unremitted or under-remittance Gross Sales-based CPFs and collect any unremitted CPFs.

On Withholding Tax at Source:

Determine the correct and valid or existing Withholding Tax at Source account as at reporting date, and prepare the adjusting entries, if warranted.
On Land Assets:

a. Reconcile the data on land assets per records of AD and Business and Investment Development Division, and prepare adjusting entry, if warranted; and

b. Derecognize the land asset for transfer to Civil Aviation Authority of the Philippines as represented in Note 12 to FS, subject to submission of complete documents relative to the transfer.

On Due to BIR:

a. Determine the nature/details of P23.362 million which are not remitted/remittable to the BIR and derecognize if found as not valid liabilities to the BIR; and

b. Ensure that the balance of the Due to the BIR is faithfully represented in the FS.

The other significant audit observations and recommendations are as follows:

1. The policy requiring the remittance of the Passenger Service Charge (PSC) on flown and expired tickets only pursuant to Sections 6.2, and 6.3 of the Memorandum Circular (MC) No. 18, series of 2019, dated August 9, 2019, is not consistent with the opinion of the Office of the Solicitor General, which resulted in the continued possession by the Air Carriers (ACs) of PSC collections, integrated in unflown and unexpired airline tickets.

We reiterated our prior year's recommendation that Management develop a policy for the accounting, reporting and monitoring of PSC collected by the ACs and on behalf of MIAA, including those due from Fix-Based Operators/ground handlers and operators. The policy shall be in support of providing a mechanism ensuring that the payment made by the concerned passengers for PSC would be credited once they depart from the terminal so that MIAA can demand the remittance of the terminal fees collected by the ACs even on unflown tickets, and should be consistent with the Revenue Memorandum Circulars issued by the BIR.

2. In the procurement of Operation and Maintenance of Baggage Handling System at NAIA Terminal 3 with Supply Support Agreement, the requirement that the bidder must be a valid holder of Philippine Contractors Accreditation Board (PCAB) license is contrary to Section 23 of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184.

We recommended that Management:

a. Strictly comply with the RIRR of RA No. 9184;

b. Identify and submit to the Audit Team the officials involved in requiring the PCAB license for the Procurement of Goods in this case, which resulted in unduly restricting the competition; and

c. Clarify possible action against employees or officials in this case where an act was possibly committed that defeated the purpose of the public bidding.
3. Post qualification proceedings, which are intended to ensure that the lowest calculated bids are evaluated to determine whether the bidder concerned complied with and is responsive to all the requirements and conditions as specified in the bidding documents, were undocumented and indicated gaps, casting doubt on the regularity of the awarding of four contracts aggregating P114.470 million in violation of Sections 12 and 34 of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184.

We recommended that Management:

a. Comply with the provisions of RIRR of RA No. 9184, specifically, on the post-qualification by the Bids and Awards Committee (BAC) pursuant to Section 34, to be able to solicit best offer from qualified bidders which is the objective of the competitive bidding, and to eliminate doubts on the integrity of the bidding process;

b. Present the result of the verification and validation of all the statements made and documents submitted by contractor which became the bases for the declaration of the bid as the Lowest Calculated and Responsive Bid which could shed light on gaps in the conduct of post-qualification as discussed in the observations; and

c. Henceforth, ensure that the post-qualification is conducted by BAC and the Technical Working Group in accordance with the methodology under the Generic Procurement Manual.

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 P56.698 million as of December 31, 2021, details of which are included in Part II of this Report.

STATUS OF IMPLEMENTATION OF PRIOR YEARS’ AUDIT RECOMMENDATIONS

Of the 38 audit recommendations contained in the prior years’ Annual Audit Reports, 16 were implemented, 17 were partially implemented and 5 were not implemented. Details are presented in Part III of this Report.