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.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>59,323,059</td>
<td>54,622,861</td>
<td>4,700,198</td>
</tr>
<tr>
<td>Liabilities</td>
<td>11,699,179</td>
<td>10,454,003</td>
<td>1,245,176</td>
</tr>
<tr>
<td>Equity</td>
<td>47,623,880</td>
<td>44,168,858</td>
<td>3,455,022</td>
</tr>
</tbody>
</table>

Comparative Results of Operation

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income</td>
<td>14,876,590</td>
<td>16,742,633</td>
<td>(1,866,043)</td>
</tr>
<tr>
<td>Share of the National Government (NG)</td>
<td>(1,713,624)</td>
<td>(1,625,714)</td>
<td>87,910</td>
</tr>
<tr>
<td>Operating Income After Share of the NG</td>
<td>13,162,966</td>
<td>15,116,919</td>
<td>(1,953,953)</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>(6,246,154)</td>
<td>(9,635,418)</td>
<td>(3,389,264)</td>
</tr>
<tr>
<td>Income from Operations</td>
<td>6,916,812</td>
<td>5,481,501</td>
<td>1,435,311</td>
</tr>
<tr>
<td>Non-Operating Income (Expenses)</td>
<td>1,957,399</td>
<td>(71,112)</td>
<td>2,028,511</td>
</tr>
<tr>
<td>Income Before Income Tax</td>
<td>8,874,211</td>
<td>5,410,389</td>
<td>3,463,822</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>(1,983,039)</td>
<td>(1,710,561)</td>
<td>272,478</td>
</tr>
<tr>
<td>Net Income</td>
<td>6,891,172</td>
<td>3,699,828</td>
<td>3,191,344</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, 2018 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, 2018 and 2017. Also, we conducted our audit 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 an unmodified opinion on the fairness of presentation of the financial statements of the Authority for the years 2018 and 2017.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following are the significant audit observations and recommendations:

1. The balance of the Customer’s Deposit Payable (CDP) account aggregating P433,767 million could not be relied upon due to the absence of subsidiary ledgers and other supporting documents which is not in compliance with Par. 15 of Philippine Accounting Standard (PAS) No. 1

   We recommended that Management:

   a) Provide subsidiary ledger/schedules for CDP account;

   b) Intensify effort to locate the supporting documents of the account; and

   c) Consider the reversion of CDP which had been outstanding for more than ten (10) years, if efforts turn out futile.

2. Investments with the Philippine Aviation Security Corporation (PASSCOR) and Aviation Security and Training, Inc. (ASTI) amounting to P11,850,000 and P655,000, respectively, were left unmonitored exposing the said investments to possible losses which is not in accordance with Section 2 of Presidential Decree (PD) No. 1445.

   We recommended that Management:

   a) Demand the accounting of its investment with PASSCOR from those charged with governance, and initiate appropriate action, if necessary, to recover its investment; and

   b) Take the necessary actions to recover the cash deposited in the name of ASTI.
3. Contracts of Lease on MIAA properties and spaces were awarded mostly without the benefit of public bidding contrary to Section 20 of the Executive Order No. 903 dated July 21, 1983 and paragraph 2 of Part IV (A) of MIAA Memorandum Circular No. 35 Series of 1999, which consequently deprived the Authority of obtaining better/higher rental rates.

   a) Refrain/stop the practice of awarding contract of lease without public bidding; and

   b) Strictly comply with Section 20 of EO 903 and pertinent provision of MIAA MC No. 35 Series of 1999.

4. The practice of the Bids and Awards Committee (BAC) of shortening the period from Advertisement to the Receipt and Opening of Bid Envelope (ROBE) to an average of 25 days, instead of availing the 45/50/65 maximum period provided in Section 25.5 of the Implementing Rules and Regulations (IRR) of RA 9184, may have precluded other prospective bidders from completing the bid requirements and/or submitting their bids, thus depriving the Authority from obtaining the most reasonable price and offer for the projects.

   We recommended that Management direct the BAC to observe the maximum periods provided in Section 25.5 and Annex C of the IRR, particularly the period from Advertisement to the ROBE, in the absence of urgency of the requirements/project and/or some valid reasons.

5. Management did not effectively enforce COA Order of Execution (COE) in accordance with Section 3 Rule XIII of the 2009 Revised Rules of Procedure of the Commission on Audit in relation with Article 1254 of the Civil Code of the Philippines, resulting in the delay in the settlement of the amount disallowed.

   We recommended that Management:

   a) Strictly observe Section 3 Rule XIII of the 2009 RRPCOA in relation with Article 1254 of the Civil Code;

   b) Effectively monitor individual settlement of COE’s to prevent delays on settlement of COA disallowances; and

   c) Refrain from the further grant of loans to MIAA Officers and Employees with COA disallowances if such could compromise the timely settlement of disallowance.

6. The Authority had barely accomplished projects or activities on Gender and Development (GAD) resulting in its failure to address the identified gender issues and underutilization of the approved GAD budget. Moreover, the GAD allocation of at least five per cent of the Corporation’s Operating Budget as required by law was not complied.
We recommended Management to:

a) Direct the GAD Focal point to formulate adequate GAD plans and programs that will address gender issues and concerns and effectively monitor the implementation of the said activities; and,

b) Comply with the required 5% minimum budget allocation for GAD activities.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2018, the Notice of Disallowance of P42.869 million issued on February 10, 2014 for excess overtimes rendered by the officials and employees of the Authority without authorization/approval from the DBM has remained unsettled.

In addition to said disallowance, other unsettled disallowances are as follows:

- Disallowances issued from 1995 to 2008 or those issued prior to the effectivity of the Revised Rules on Settlement of Accounts (RRSA) totalling P11.114 million.

- Disallowances on remuneration for the NAIA Terminal 2 Development Project consultancy services in the amount of P149.052 million and on the overpayment of terminal maintenance services of P10.318 million. These disallowances were recognized in the books in 2015 due to the finality of the COA decisions.

A Notice of Disallowance was also issued in 2008 disallowing payment of 10 per cent contingency and 5 per cent excess in profit in the amount of P0.677 million. A Notice of Finality of Decision (NFD) was issued on June 22, 2011. Appellants filed their appeal but was denied under CGS-Cluster 4 Decision No. 2015-06 dated March 13, 2015 for having been filed out of time.

Partial settlements on the above disallowances effected thru payroll deductions totalled to P.943 million as of December 31, 2018.

STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS

Of the twenty (20) audit recommendations embodied in the CY 2017 Annual Audit Report, fourteen (14) were implemented, three (3) were partially implemented and three (3) were not implemented. Details are presented in Part III of this Report.