Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

MIAA / GENERAL SERVICES
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July 22, 2021

The Board of Directors
Manila International Airport Authority
Pasay City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of audit of the accounts and transactions of Manila International Airport Authority (the Authority or MIAA) for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Year's Audit Recommendations.

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of the Authority for the years 2020 and 2019 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 are not working effectively, as a result, the reported Concession Privilege Fees (CPFs) 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.

The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on June 28, 2021, are presented in detail in Part II of the report.

In a letter of even date, we requested the Authority's General Manager to take appropriate actions on the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

ELSIELIN C. MASANGCAY
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Senate Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

July 22, 2021

Mr. EDDIE V. MONREAL
General Manager
Manila International Airport Authority
Pasay City

Sir:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of audit of the accounts and transactions of Manila International Airport Authority (the Authority or MIAA) for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Year's Audit Recommendations.

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of the Authority for the years 2020 and 2019 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 are not working effectively, as a result, the reported Concession Privilege Fees (CPFs) income amounting to P176.854 million is not faithfully represented.

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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.

The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on June 28, 2021, are presented in detail in Part II of the report.

We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

ELSIELIN C. MASANGCAY
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
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Republic of the Philippines
COMMISSION ON AUDIT
Quezon City

ANNUAL AUDIT REPORT

on the

MANILA INTERNATIONAL AIRPORT AUTHORITY

For the Years Ended December 31, 2020 and 2019

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

	(In Thousand Pesos)		
	2020	2019 (As restated)	Increase (Decrease)
Assets	52,407,645	61,316,472	(8,908,827)
Liabilities	6,394,383	14,703,984	(8,309,601)
Equity	46,013,262	46,612,488	(599,226)

Comparative Results of Operation

	(In Thousand Pesos)		
	2020	2019 (As restated)	Increase (Decrease)
Operating Income	5,096,135	15,195,523	(10,099,388)
Share of the National Government (NG)	(563,051)	(1,789,453)	(1,226,402)
Operating Income After Share of the NG	4,533,084	13,406,070	(8,872,986)
Operating Expenses	(5,915,766)	(6,535,331)	(619,565)
Income (Loss) from Operations	(1,382,682)	6,870,739	(8,253,421)
Non-Operating Income (Expenses)	369,329	339,125	30,204
Loss Before Income Tax	(1,013,353)	7,209,864	(8,223,217)
Income Tax Expense	(37,760)	(2,153,175)	(2,115,415)
Net Income (Loss)	(1,051,113)	5,056,688	(6,107,801)

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 (CPFs) 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.

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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.

TABLE OF CONTENTS

PART I

AUDITED FINANCIAL STATEMENTS

PART II

OBSERVATIONS AND RECOMMENDATIONS

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Republic of the Philippines
COMMISSION ON AUDIT
Quezon City

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Manila International Airport Authority
Pasay City

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Manila International Airport Authority (the Authority or MIAA), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters discussed in the Bases for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of MIAA as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Bases for Qualified Opinion

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 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 PFRS 9. The Authority's provision matrix of estimating Expected Credit Loss (ECL) at a uniform rate of 10 per cent for accounts that are 30 days to less than 10 years past due, did not consider that the longer the period, the higher the probability of default. The unbilled TRs from Passenger Terminal Fees and Concession Privilege Fees (CPFs) amounting to P299.637 million and P107.198 million, respectively, were excluded/not considered in the computation of Allowance for Impairment (AFI). The Authority did not consider the current conditions and reasonable and supportable forecasts of future economic conditions when measuring expected credit losses, like the economic impact of COVID-19 pandemic which could expose MIAA to higher credit risk since most of their clients are engaged in aviation or airline industries. 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 Authority is still in the process of identifying lease agreements that are for recognition on a straight line basis, and those agreements that are affected by lease modification.

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 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 the portion of the Authority's liability or obligation. Under the Conceptual Framework of Accounting, liability is a present obligation of the entity to transfer an economic resource as a result of past events.

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of MIAA in accordance with the Code of Ethics for Government Auditors (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing MIAA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate MIAA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing MIAA's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MIAA's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on MIAA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause MIAA to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 34 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to auditing procedures applied in our audits of the basic financial statements. In our opinion, except for the possible effects of the matters described in the Bases for Qualified Opinion paragraph of our report, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

Cnchan

CECILIA N. CHAN
Acting Supervising Auditor

July 14, 2021

MIA Road, NAIA Complex
Pasay City, Philippines 1300

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(632) 8877.1109

ANNEX M

MNL | MANILA INTERNATIONAL AIRPORT AUTHORITY

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the Manila International Airport Authority (MIAA) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the MIAA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the MIAA or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the MIAA's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stakeholders and other users.

The Commission on Audit has audited the financial statements of the MIAA in accordance with the International Standards of Supreme Audit Institutions, and in its report to the Board of Directors, has expressed its opinion on the fairness of the presentation upon completion of such audit.

SEC. ARTHUR P. TUGADE
Chairman of the Board

Date Signed

DOTr-OSEC OUTGOING 21-001015

EDDIE V. MONREAL
General Manager

JUL 09 2021
Date Signed

GRACE D. GULINAO
OIC, Accounting Division

July 09, 2021
Date Signed

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019
(In Philippine Peso)

	Note	2020	2019 (As restated)	January 1, 2019 (As restated)
ASSETS				
Current Assets				
Cash and Cash Equivalents	6	**350,972,168**	11,077,714,859	5,068,748,480
Financial Assets	7	**8,944,325,524**	7,898,339,759	12,298,735,714
Financial Assets at Amortized Cost				
Trade and Other Receivables, net	8	**3,847,173,648**	3,212,510,852	4,147,713,928
Prepayments	9	**1,051,784,363**	750,701,872	658,109,776
Other Current Assets	10	**1,081,332,932**	1,235,119,898	875,987,971
		15,275,588,635	24,174,387,240	23,049,295,869
Non-Current Assets				
Property and Equipment, net	11	**28,731,685,960**	28,775,545,811	28,174,620,627
Investment Property, net	12	**7,726,035,202**	7,726,035,202	7,728,654,587
Investment in Stocks		**0**	0	12,505,000
Other Non-Current Assets	13	**674,334,885**	640,503,496	622,002,380
		37,132,056,047	37,142,084,509	36,537,782,594
TOTAL ASSETS		**52,407,644,682**	61,316,471,749	59,587,078,463
LIABILITIES AND EQUITY				
Current Liabilities				
Trade and Other Payables, net	14	**1,540,709,675**	7,317,066,537	4,701,222,044
Inter-Agency Payables	15	**374,693,908**	1,798,046,997	1,895,124,938
Financial Liabilities				
Current Portion of Loans Payable - Domestic	16	**488,227,800**	488,227,800	488,227,800
Current Portion of Loans Payable - Foreign	17	**415,774,164**	416,911,553	427,514,269
Current Portion of Finance Lease Payable	18	**147,496,688**	137,799,721	0
Other Current Liabilities	19	**1,551,378,483**	1,464,697,994	1,029,634,635
		4,518,280,718	11,622,750,602	8,541,723,686
Non-Current Liabilities				
Loans Payable - Domestic	16	**244,113,900**	732,341,700	1,220,569,500
Loans Payable - Foreign	17	**821,438,184**	1,240,934,612	1,699,725,667
Finance Lease Payable	18	**270,824,073**	418,320,761	0
Other Non-Current Liabilities	19	**0**	5,544,516	0
		1,336,376,157	2,397,141,589	2,920,295,167
Deferred Revenue	20	**539,725,872**	684,091,990	660,734,714
Equity	21, 22	**46,013,261,935**	46,612,487,568	47,464,324,896
TOTAL LIABILITIES AND EQUITY		**52,407,644,682**	61,316,471,749	59,587,078,463

The notes on pages 10 to 54 form part of these financial statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	**2020**	2019 (As restated)
REVENUES	23		
Landing and parking fees		**2,013,070,135**	5,262,464,243
Rent/lease income		**1,610,498,808**	3,595,028,864
Terminal fees		**1,168,396,413**	5,497,157,387
Parking fees		**76,200,447**	379,070,436
Royalty fees		**48,609,703**	127,659,205
Other service income		**179,359,624**	334,142,917
		5,096,135,130	15,195,523,052
National Government share on MIAA's gross income	24	**(563,051,129)**	(1,789,453,244)
MIAA'S SHARE ON OPERATING INCOME		**4,533,084,001**	13,406,069,808
EXPENSES			
Personnel services	25	**975,311,366**	976,864,047
Maintenance and other operating expenses	26	**4,940,454,588**	5,558,467,094
		5,915,765,954	6,535,331,141
INCOME (LOSS) FROM OPERATIONS		**(1,382,681,953)**	6,870,738,667
OTHER INCOME (EXPENSES)			
Gain (loss) on disposal of asset		**(4,416,292)**	(85,178,195)
Interest income	29	**337,463,601**	632,172,830
Fines and penalties		**32,802,532**	67,485,539
Miscellaneous income		**24,577,054**	66,015,217
Income from grants and donations		**25,334,700**	0
Share in the loss of associate (PASSCOR)		**0**	(11,850,000)
Gain (loss) on foreign exchange		**(80,918,557)**	(103,601,643)
Finance expenses	30	**(161,128,897)**	(225,918,564)
		173,714,141	339,125,184
INCOME (LOSS) BEFORE INCOME TAX		**(1,208,967,812)**	7,209,863,851
Income tax expense	31	**(37,759,811)**	(2,153,175,404)
INCOME (LOSS) AFTER TAX		**(1,246,727,623)**	5,056,688,447
Subsidy from National Government	28	**195,614,753**	0
COMPREHENSIVE INCOME (LOSS)		**(1,051,112,870)**	5,056,688,447

The notes on pages 10 to 54 form part of these financial statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	Government Equity (Note 21)	Contributed Capital (Note 22)	Retained Earnings	Total
Balances, December 31, 2018, as restated		10,000,000,000	5,816,478,689	31,354,974,527	47,171,453,216
Property and Equipment prior year adjustments	32	0	0	292,871,680	292,871,680
Balances, January 1, 2019, as restated		**10,000,000,000**	**5,816,478,689**	**31,647,846,207**	**47,464,324,896**
Changes in Equity for 2019					
Net income for the year		0	0	5,056,688,447	5,056,688,447
Dividends declared		0	0	(6,000,000,000)	(6,000,000,000)
Reversal of December 2018 foreign exchange revaluation		0	0	138,581,520	138,581,520
Full payment of Judgmental Obligation (per COA Decision No. 2017-310) to Philippine National Construction Corporation		0	0	(9,251,010)	(9,251,010)
Reversal of rental income from Duty Free Philippines (per BR No. 2019-038)		0	0	(73,628,966)	(73,628,966)
Liquidation of DOTr funds transferred to MIAA Rapid Exit Taxiways Project		0	35,772,681	0	35,772,681
Accrual of expenses for unliquidated cash advances to NGAs:					
Reversal of unliquidated balance, beginning of the year		0	0	5,290,563	5,290,563
Unliquidated cash advances, end of the year		0	0	(5,290,563)	(5,290,563)
Balances, December 31, 2019, as restated	32	**10,000,000,000**	**5,852,251,370**	**30,760,236,198**	**46,612,487,568**
Changes in Equity for 2020					
Net loss for the year		0	0	(1,051,112,870)	(1,051,112,870)
Dividends declared		0	0	0	0
Reversal of December 2019 FOREX revaluation		0	0	68,980,998	68,980,998
Liquidation of DOTr funds transferred to the MIAA for the NAIA Terminal 2 Rehabilitation Project		0	382,906,239	0	382,906,239
Accrual of expenses for unliquidated cash advances to NGAs:					
Reversal of unliquidated balance, beginning of the year		0	0	5,290,563	5,290,563
Liquidation of cash advances, prior years		0	0	(2,474,443)	(2,474,443)
Unliquidated cash advances, end of the year		0	0	(2,816,120)	(2,816,120)
Balances, December 31, 2020		**10,000,000,000**	**6,235,157,609**	**29,778,104,326**	**46,013,261,935**

The notes on pages 10 to 54 form part of these financial statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	**2020**	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from operations		**4,700,016,905**	14,733,710,989
Trust receipts		**1,046,407,667**	3,741,239,723
Interest income on bank deposits		**111,446,536**	449,974,854
Miscellaneous income		**52,047,500**	109,797,328
Advances to officers and employees		**(691,105)**	(3,172,668)
Advances to other agencies		**(17,212,573)**	(32,911,528)
Remittance of trust receipts		**(805,484,106)**	(1,315,332,023)
Remittance of share of National Government		**(1,524,930,890)**	(3,626,828,591)
Payment of operating expenses		**(4,561,991,091)**	(5,609,923,372)
Net cash generated from operations		**(1,000,391,157)**	8,446,554,712
Corporate income tax paid		**(805,181,072)**	(1,867,073,803)
Net cash provided by (used in) operating activities		**(1,805,572,229)**	6,579,480,909
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds of short-term investments		**18,201,771,157**	15,940,989,338
Proceeds from sale of property and equipment		**0**	913,802,500
Acquisition of property and equipment		**(1,101,959,271)**	(1,574,560,854)
Investment in time deposits		**(18,983,690,268)**	(11,312,503,160)
Net cash provided by (used in) investing activities		**(1,883,878,382)**	3,967,727,824
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	14	**(6,000,000,000)**	(3,423,662,888)
Debt servicing		**(1,020,241,541)**	(1,106,399,956)
Net cash used in financing activities		**(7,020,241,541)**	(4,530,062,844)
Effects of exchange rate changes on cash and cash equivalents		**(17,050,539)**	(8,179,510)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(10,726,742,691)**	6,008,966,379
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**11,077,714,859**	5,068,748,480
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**6**	**350,972,168**	11,077,714,859

The notes on pages 10 to 54 form part of these financial statements.

1. GENERAL INFORMATION

The Manila International Airport Authority (MIAA), an attached agency of the Department of Transportation (DOTr), was created by virtue of Executive Order (EO) No. 778 which was approved on March 04, 1982. The Charter of the Authority was amended by EO Nos. 903 and 909 signed on July 21, 1983 and September 16, 1983, respectively. EO No. 298 was issued on July 26, 1987 to amend Sections 7, 10, 11 and 13 of EO No. 778, as amended by EO Nos. 903 and 909. 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 Authority's functions for the airport are, among others, to formulate a comprehensive and integrated policy and program and to implement, review and update such policy and program periodically; to control, supervise, construct, maintain, operate and provide such facilities or services as shall be necessary for its efficient functioning; to promulgate rules and regulations governing its planning, development, maintenance, operation and improvement; and to control and/or supervise, as may be necessary, the construction of any structure or the rendition of any service within its premises.

The Authority's corporate thrusts and objectives aim for the continued implementation and development of projects with Key Results Area (KRA) for passengers' safety, security, comfort and welfare. The following are the major projects (P5 million and above) completed in CY 2020:

- Replacement and Upgrading of Chiller at Ninoy Aquino International Airport (NAIA) Terminal 2;
- Replacement of Air Handling Units at NAIA Terminal 2;
- Repair of Mitsubishi Escalators and Moving Walks at NAIA Terminal 3 (Supply Support Agreement); and
- Retaining Wall Project (Restoration of pavements and laying of concrete hollow block (CHB) Fence at Aviation Support Industrial Area (ASIA) near Fire and Rescue Building);

Some of the major projects for CY 2020 are getting delayed due to the COVID-19 pandemic, which are expected to be completed in the first semester of CY 2021:

- Rehabilitation of NAIA Terminal 2 Project;
- Repair and Overlay of Runway 13/31;

- Installation of Eleven (11) Units of New Passenger Boarding Bridges in NAIA Terminal 1; and

- Thermoplastic Repainting of Pavement Markings.

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2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Authority were prepared in accordance with Philippine Financial Reporting Standards (PFRS), which include all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board Of Accountancy (BOA).

Basis of Preparation of Financial Statements

The financial statements of the Authority were prepared on historical cost basis unless otherwise indicated. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Authority takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety; which is described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and Presentation Currency

These financial statements are presented in Philippine peso, the currency of the primary economic environment in which the Authority operates. All amounts are rounded to the nearest peso, except when otherwise indicated.

3. ADOPTION OF NEW AND AMENDED PFRS

a. Effective in 2020 that are relevant to the Authority

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments that are relevant to the Authority effective beginning January 1, 2020:

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material.* The amendments refine the definition of material in PAS 1 and align the definitions used across PFRS and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

- Amendments to PFRS 16, *Leases*, COVID-19-related Rent Concessions – The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021.

The adoption of the foregoing new and amended PFRS did not have any material effect on the Authority's financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

b. Effective in 2020 that are not relevant to the Authority

- Amendments to PFRS 3, *Business Combinations*, Definition of a Business – The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The amendment defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs.

c. New and amended PFRS issued but not yet effective

The new and amended PFRS which are not yet effective for the year ended December 31, 2020 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2021:

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts.* It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Business Combinations*, Reference to the Conceptual Framework – Reference to the 1989 Framework in paragraph 11 of PFRS 3 Business Combinations was updated to 2018 Framework. Potential conflicts occur as the definition of assets and liabilities in the 2018 Framework differ from those in the 1989 Framework potentially leading to day 2 gains or losses post-acquisition for some balances recognized.

- Amendments to PAS 16, *Property, Plant and Equipment*, Proceeds Before Intended Use – This amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* Onerous Contracts - Cost of Fulfilling a Contract – The changes specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, Subsidiary as a First-time Adopter – The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRS.

- Amendments to PFRS 9, *Financial Instruments,* Fees in the '10 per cent' Test for Derecognition of Financial Liabilities – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- Amendments to PFRS 16, *Leases*, Lease Incentives –The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- Amendments to PAS 41, *Agriculture,* Taxation in Fair Value Measurements – The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements*, Classification of Liabilities as Current or Non-Current – The amendments affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. Clarify that the classification of liabilities as current or non-current (i) should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the “right” to defer settlement by at least twelve months and make explicit that only rights in place “at the end of the reporting period” should affect the classification of liability, (ii) is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, and (iii) settlement refers to the transfer to the counterparty of cash, equity instruments, and other assets or services.

- Amendments to PFRS 17, *Insurance Contracts* –The main changes resulting from Amendments to PFRS 17 are:

    - Deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2023 and change the fixed expiry date for the temporary exemption in PFRS 4 Insurance Contracts from applying PFRS 9 Financial Instruments, so that entities would be required to apply PFRS 9 for annual periods beginning on or after January 1, 2023.

    - Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk.

    - Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination.

    - Clarification of the application of PFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.

    - Clarification of the application of contractual service margin attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.

- Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.

- Amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held.

- Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.

- Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.

- Several small amendments regarding minor application issues.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures,* Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Corporation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition, Measurement and Classification of Financial Assets and Financial Liabilities

The Authority recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

All financial instruments are initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial assets and financial liabilities designated as at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

'Day1' Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Authority recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Authority determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Assets

The Authority classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at FVPL. The classification depends on the business model of the Authority for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to initial recognition unless the Authority changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

Financial Assets at Amortized Cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVPL, impaired or derecognized, as well as through the amortization process.

The Authority's cash, short-term investments, and receivables are included under this category (Notes 6, 7 and 8).

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The Authority has no financial assets classified as financial assets as at FVOCI and at FVPL as at December 31, 2020 and 2019.

Cash

Cash includes cash on hand and in banks which are stated at face value.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Allowance for credit loss accounts is provided based on an evaluation of expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

Financial Liabilities

The Authority classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Authority determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value, and, in case of loans and borrowings, net of directly attributable transaction costs.

Other Financial Liabilities

Other financial liabilities pertain to issued financial instruments that are not designated or classified as at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and any directly attributable transaction costs that are an integral part of the effective interest rate.

Gains and losses are recognized in the profit or loss when the liabilities are derecognized or impaired, as well as through amortization process.

This accounting policy applies primarily to financial liabilities (other than statutory liabilities), long-term debt and other noncurrent liabilities (Notes 14, 15, 16, 17, 18, 19 and 20).

<u>Impairment of Financial Assets at Amortized Cost and FVOCI</u>

The Authority records an allowance for “expected credit loss” (ECL). ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Authority expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Authority has applied the simplified approach and has calculated ECLs based on the lifetime expected credit losses. The Authority has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments measured at amortized cost and FVOCI, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Authority compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

<u>Derecognition of Financial Assets and Liabilities</u>

Financial Assets. A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;

- the Authority retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Authority has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

  When the Authority has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Authority's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Authority could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10 per cent from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Authority could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the statements of comprehensive income.

On the other hand, if the difference does not meet the 10 per cent threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

<u>Offsetting of Financial Assets and Liabilities</u>

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

<u>Classification of Financial Instrument between Liability and Equity</u>

A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Authority; or

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

  If the Authority does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Authority are recognized at the proceeds received, net of direct issue costs.

Retained Earnings

Retained earnings represent accumulated profit attributable to equity holders of the Authority after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy and prior period adjustments.

Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business or for administrative purposes.

Investment properties, except land, are measured at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives.

The estimated useful lives and depreciation method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefit from items of investment properties.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal. Transfers are made to investment property when, and only when, there is a change in use, evidenced by the ending of owner-occupation, commencement of an operating lease to another party or ending of the construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner occupation or commencement of development.

Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

- The initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Property and equipment, except land, are stated in the financial statements at cost less accumulated depreciation, amortization and any impairment in value.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized in profit or loss in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. The cost of replacing a component of an item of property and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Authority, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

When parts of an item of property and equipment have different useful lives, these are accounted for as separate items (major components) of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the property and equipment.

Impairment of Non-financial Assets

At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit and loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Derecognition of Non-financial Assets

Non-financial assets are derecognized when the assets are disposed of or when no future economic benefits are expected from these assets. Any difference between the carrying value of the asset derecognized and the net proceeds from derecognition is recognized in profit or loss.

Related Parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Terminal Fees

Revenue from terminal fees is recognized when passengers are given access to the terminal facilities.

Landing Fees

Revenue from landing fees is recognized when the airlines are given access to runway facilities including lighting and aerobridge facilities.

Rental Revenue

Revenue from rental is recognized in the statement of comprehensive income on a straight-line basis over the term of the lease of floor spaces, buildings and land.

Parking Fees

Parking fees are recognized as the customers use the parking facilities.

Fines and Penalties

Fines and penalties are recognized when violation has occurred and when collectability of the amount is reasonably assured.

Subsidy Income

Subsidy income is recognized when the subsidy becomes receivable and the Authority has complied with all the conditions attached to the subsidy.

Interest Revenue

Interest revenue is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Expense Recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Leases

Authority as Lessee

For any new contracts entered into on or after January 1, 2019, the Authority considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’.

To apply this definition the Authority assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Authority

- the Authority has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract

- the Authority has the right to direct the use of the identified asset throughout the period of use. The Authority assesses whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Authority recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Authority, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Authority depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Authority also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Authority measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Authority's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Authority has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in current liabilities for the current portion and non-current liabilities for the non-current portion.

Authority as Lessor

The Authority's accounting policy under PFRS 16 has not changed from the comparative period.

As a lessor, the Authority classifies its leases as either operating or finance leases.

Leases wherein the Authority substantially transfers to the lessee all risks and benefits incidental to ownership of the leased items are classified as finance leases and are presented as receivable at an amount equal to the Authority's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Authority's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in the income statement on a straight-line basis over the lease term.

The Authority determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes as assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Employee Benefits

Short-term Benefits

Short term benefits include salaries, bonuses, compensated absences and other forms of employee benefits that are expected to be settled within one year from the reporting date. Short-term employee benefits are recognized as expense in the period the related services are provided.

Terminal Leave Benefits

Terminal leave benefits are computed based on the actual leave credits earned by employees as of the reporting date. The amount reported as liability in the statement of financial position is based on the employees' salary grade as of the reporting dates.

Income Tax

Income tax expense represents the sum of the current tax and deferred tax expense.

Current Tax

The current tax expense is the amount of tax due which is computed based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rate that is expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Authority expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and Deferred Tax for the Year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

Borrowing Costs

Borrowing costs are interest and other costs that the Authority incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of the assets until such time as the assets are substantially ready for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Provisions and Contingencies

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Authority expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Changes in Accounting Policies and Estimates

The Authority recognizes the effects of changes in accounting policies retrospectively. The effects of changes in accounting policy were applied prospectively if retrospective application is impracticable.

The Authority recognizes the effects of changes in accounting estimates prospectively by including in profit or loss.

The Authority corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

a. Restating the comparative amounts for prior period(s) presented in which the error occurred; or
b. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Events after Reporting Date

Subsequent events that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after period end (non-adjusting events) are disclosed in the notes to the financial statements.

5. JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with Philippine Financial Reporting Standards requires the Authority to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumption used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

Estimated allowance for impairment of receivables

The Authority maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on such factors that affect the collectability of the accounts. These factors include, the age of the receivables, the length of the Authority's relationship with the customer, the customer's payment behavior and known market factors. The amount and timing of recorded expenses for any period would differ if the Authority made different judgments or utilized different estimates.

At the end of 2020 and 2019, the Authority has recognized allowance for impairment of receivables in the amount of P1.293 billion and P1.257 billion, respectively.

Estimated useful lives of property and equipment

The Authority estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets and residual values are reviewed, and adjusted if appropriate, only if there is a significant change in the asset or how it is used.

The following estimated useful lives are used in depreciating property and equipment:

Property and Equipment	Years	Property and Equipment	Years
Buildings	20/30	Airport Equipment	10
Runways and Taxiways	20	Communication Equipment	10
Investment Property	20	Medical, Dental, Laboratory	10
Land Improvements	10	Military and Police Equipment	10
Leasehold Asset	10	Firefighting Equipment	7
Furnitures and Fixtures	10	Motor Vehicles	7
Machineries	10	Other Equipment	5

6. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2020	2019
Cash on Hand	**10,957,237**	116,180,225
Savings Account – Dollar and Peso	**285,375,662**	1,107,853,724
Current Account – Dollar and Peso	**54,639,269**	703,025,965
Time Deposits – Peso	**0**	9,150,654,945
	350,972,168	11,077,714,859

Cash on Hand refers to cash with the collecting officers and petty cash fund.

Foreign currency deposits are translated into Philippine peso using the Bangko Sentral ng Pilipnas closing rates of P48.023 and P50.635 to US$1.00 as of December 31, 2020 and 2019, respectively.

Time Deposits – Peso pertains to investments in peso time deposits with Authorized Government Depository Banks (AGDBs) for a period of 90 days or less which matured in CY 2020.

Total interest earned on cash and cash equivalents included in the statement of comprehensive income amounted to P73.397 million and P404.082 million in 2020 and 2019, respectively (Note 29).

7. FINANCIAL ASSETS

The account *Financial Assets* pertains to investments in peso time deposits with AGDBs for a period of 91 days or more of P8.944 billion and P7.898 billion in 2020 and 2019, respectively.

Total interest earned on short-term investments included in the statement of comprehensive income amounted to P264.067 million and P228.090 million in 2020 and 2019, respectively (Note 29).

8. TRADE AND OTHER RECEIVABLES

This account consists of the following:

	2020	2019 (As restated)
Trade Receivables		
Non-Government Entities	**3,260,152,151**	2,387,608,062
Passenger Terminal Fees	**299,637,328**	383,360,288
Government-Owned and Controlled Corporations (GOCCs)	**146,331,981**	222,330,902
National Government Agencies (NGAs)	**30,587,142**	27,710,537
	3,736,708,602	3,021,009,789
Allowance for Impairment	**(1,292,558,298)**	(1,257,227,459)
	2,444,150,304	1,763,782,330
Non-Trade Receivables		
National Government Agencies (NGAs)	**943,171,112**	933,625,608
	943,171,112	933,625,608
Other Receivables		
Expanded Value-Added Tax	**339,169,835**	261,734,217
COA Disallowances	**17,387,780**	166,840,698
Interest Receivables	**23,685,799**	61,735,388
Others	**79,608,818**	24,792,611
	459,852,232	515,102,914
	3,847,173,648	3,212,510,852

Trade Receivables consists of receivables from airline companies and various concessionaires/lessees (non-government entities) and other government entities (GOCCs and NGAs) for the use of facilities, services and utilities of the airport. This account also includes long-outstanding and non-moving trade receivables from concessionaires with rate disputes and collection cases.

Passenger Terminal Fees represents receivables from airline companies for passenger service charge integrated in the sale of airline tickets.

A reconciliation of the allowance for impairment at the beginning and end of 2020 and 2019 is shown below.

	2020	2019
Balance at beginning of year	**1,257,227,459**	1,318,867,027
Provision for the year	**35,330,839**	24,487,079
Reversal	**0**	0
Write-off	**0**	(86,126,647)
	1,292,558,298	1,257,227,459

MIAA's request for authority to write-off its receivable from the Civil Aviation Authority of the Philippines covering CYs 2008 to 2009 was granted per COA-CGS Decision No. 2019-07 dated November 8, 2019.

Non-Trade Receivables consists mainly of the sale of the 61,148 square meter (sq. m.) land to Department of Public Works and Highways (DPWH) for C5 Road Extension Project (Note 11). In March 2019, MIAA collected P913.802 million or 50 per cent of the total receivables from DPWH.

Expanded Value-Added Tax pertains to the balances of the 12 per cent expanded value-added tax (EVAT) billed to concessionaires.

COA Disallowances pertains to disallowances in audit that were recognized in the books due to the finality of the COA decisions. It consists mainly of disallowances on remuneration for consultancy services for NAIA Terminal 2 Development Project of P149.052 million which was reversed in CY 2020 upon receipt of Notice of Resolution on G.R. No. 218388 dated September 1, 2020 (Note 20).

9. PREPAYMENTS

This account consists of the following:

	2020	2019 (As restated)
Input Tax	**287,126,166**	277,358,706
Creditable Input Tax	**364,137,030**	0
Withholding Tax at Source	**168,374,913**	176,093,611
Advances to Contractors	**44,366,784**	125,148,511
Deferred Input Tax	**52,231,428**	36,108,263
Inventories	**118,913,704**	135,971,796
Prepaid Insurance	**16,634,338**	20,985
	1,051,784,363	750,701,872

Input Tax pertains to the value-added taxes (VAT) paid by the Authority on local purchases of goods and services from VAT-registered persons/entities which are to be deducted/offset against output taxes.

Creditable Input Tax pertains to the excess input tax paid on purchases over output tax.

Inventories represents cost of office supplies, accountable forms, drugs and medicines, fuel and oil, construction materials, electrical supplies and other supplies purchased/acquired for MIAA's operations but not yet used or consumed.

10. OTHER CURRENT ASSETS

This account consists of the following:

	2020	2019 (As restated)
Restricted Fund Assets	**994,077,716**	1,147,864,682
Guaranty Deposit	**87,255,216**	87,255,216
	1,081,332,932	1,235,119,898

Restricted Fund Assets represents the fund transfer from the Department of Transportation (DOTr) for the NAIA Terminal 2 Rehabilitation Project, Bayanihan to Recover as One Act – Assistance Program and remittances from airline companies of terminal fee from unflown/unused/cancelled airline tickets (Note 19).

Guaranty Deposits represents bill deposits paid to the Manila Electric Company as a guarantee for payment of electric bills.

11. PROPERTY AND EQUIPMENT

This account consists of the following:

	LAND & LAND IMPROVEMENT	AIRPORT SYSTEM	DEVELOPMENT/ CONSTRUCTION IN PROGRESS	BUILDINGS & STRUCTURES	MACHINERIES & EQUIPMENTS	TOTAL
2020						
COST						
At January 1, 2020	12,078,811,306	25,932,249,245	553,235,428	410,012,528	8,430,893,880	47,405,202,387
Additions	30,219,009	0	1,364,328,162	0	498,930,029	1,893,477,200
Reclassifications	0	0	(286,676,296)	0	0	(286,676,296)
Adjustments	0	0	0	0	(4,151,783)	(4,151,783)
Disposals/Write-off	(158,452,201)	0	0	0	(22,957,870)	(181,410,071)
Balance, December 31, 2020	**11,950,578,114**	**25,932,249,245**	**1,630,887,294**	**410,012,528**	**8,902,714,256**	**48,826,441,437**
ACCUMULATED DEPRECIATION						
At January 1, 2020	(3,723,584,229)	(8,518,602,091)	0	(321,644,678)	(6,065,825,578)	(18,629,656,576)
Depreciation	(36,808,867)	(1,042,449,851)	0	(5,128,271)	(406,867,515)	(1,491,254,504)
Adjustments	(111,671,845)	25,896,089	0	0	93,863,780	8,088,024
Disposals/Write-off	0	0	0	0	18,067,579	18,067,579
Balance, December 31, 2020	**(3,872,064,941)**	**(9,535,155,853)**	**0**	**(326,772,949)**	**(6,360,761,734)**	**(20,094,755,477)**
Carrying Amount, December 31, 2020	**8,078,513,173**	**16,397,093,392**	**1,630,887,294**	**83,239,579**	**2,541,952,522**	**28,731,685,960**
2019						
COST						
At January 1, 2019	11,504,209,105	25,932,249,245	194,662,514	410,012,528	8,059,632,372	46,100,765,764
Additions	733,054,402	0	1,061,338,578	0	571,189,564	2,365,582,544
Reclassifications	0	0	(702,765,664)	0	0	(702,765,664)
Disposals/Write-off	(158,452,201)	0	0	0	(199,928,056)	(358,380,257)
Balance, December 31, 2019	12,078,811,306	25,932,249,245	553,235,428	410,012,528	8,430,893,880	47,405,202,387
ACCUMULATED DEPRECIATION						
At January 1, 2019	(4,235,794,607)	(7,505,644,174)	0	(316,423,969)	(5,868,282,387)	(17,926,145,137)
Depreciation	(192,748,081)	(1,025,246,222)	0	(5,220,709)	(368,537,385)	(1,591,752,397)
Adjustments	0	558,794,563	0	0	0	558,794,563
Transfer	158,452,201	0	0	0	0	158,452,201
Disposals/Write-off	0	0	0	0	170,994,194	170,994,194
Balance, December 31, 2019	**(4,270,090,487)**	**(7,972,095,833)**	**0**	**(321,644,678)**	**(6,065,825,578)**	**(18,629,656,576)**
Carrying Amount, December 31, 2019	**7,808,720,819**	**17,960,153,412**	**553,235,428**	**88,367,850**	**2,365,068,302**	**28,775,545,811**

Land owned by the Authority was recorded in 1987 at appraised value of P1,000 per sq. m.. It covers an area of 6,250,905 sq. m. based on a Cadastral Survey dated January 5, 1987. In 1991, the Authority sold to the Light Rail Transit Authority a total area of 107,179 sq. m. at P1,000 per sq. m..

In 2003 and 2004, purchases were made from the heirs of Eladio Santiago of 720 sq. m. valued at P2.16 million and from the Nayong Pilipino Foundation (NPF) of 86,000 sq. m. at P500 million, respectively.

On September 29, 2011, President Benigno Aquino III signed Executive Order No. 58 mandating the transfer of real estate property owned by the NPF to the Authority which consists of 22.3 hectares, more or less, located in Pasay City. The owner's duplicate copies of the Transfer Certificates of Title (TCTs) are still under the custody of the NPF and have not been transferred to MIAA. This was recorded in the books of the Authority in 2017 at its Fair Market Value at the date of acquisition amounting to P8.259 billion as determined by an independent/third party appraiser (Notes 21 and 22).

On December 11, 2013, the Office of the President approved the request of the DPWH for the transfer through sale in its favor a part of said MIAA property (Lot 3270-B-3-A-2-A-2 under TCT No. 141810), in the total amount of P540.06 million or at zonal value of P10,000 per sq. m.. Subject property was used by Department of Public Works and Highways (DPWH) for the construction of the Circumferential Road 5 (C-5) Extension Project from South Luzon Expressway in Pasay City to Sucat Road, Parañaque City.

On December 18, 2018, MIAA and DPWH signed a Memorandum of Agreement (MOA) to implement the Republic's approved construction of the C5 South Link Expressway Project (C-5 SLEP). MIAA conceded to absolutely and irrevocably sell, transfer and convey to DPWH the 61,148 sq. m. total affected land area. DPWH agreed to buy the said land area of re: [Segment 3A-1: 18,959 sq. m. ; Segment 3A-2: 39,996 sq. m. ; and TCT No. 6735: 2,193 sq. m.] for a total just compensation of P1.847 billion.

As of December 31, 2020, the total land area owned by the Authority is 6,338,292 sq. m. inclusive of the 463,829 sq. m. covered by the following Presidential Proclamations:

PP No.	Area in sq.m	Site
135	34,662	Sitio San Juan, Sitio Santa Rita, Sitio Maligaya, Sitio Puyat Compound
144/391	134,189	Balagbag 1, Bo. Pilipino Putol, Don Carlos Village, Maricaban
595	251,448	Balagbag 2, Pildera 1 and 2, Rivera Village
380	20,576	DSWD & NCWP
970	22,954	MIAA Employees Housing
Total	**463,829**	

and the 22.3 hectares transferred from NPF but exclusive of the 115,154 sq. m. sold to DPWH.

Likewise, there is an encumbrance annotated on TCT No. S-141810 with an area of 2,823,720 sq. m. pertaining to the following:

1. Entry No. 2003-1845/T-141810 which is the sale executed by Philippine Airlines (PAL) in favor of Lufthansa Technik Philippines, Inc. (Lufthansa Technik) covering the structure together with the improvements constructed on the PAL leased area consisting of more or less 288,647 sq. m. in the amount of P924.429 million.

2. Entry No. 2003-1895/T-141810 which is the mortgage trust indenture executed by Lufthansa Technik in favor of Union Bank of the Philippines covering the structure together with the improvements in the amount of US$35 million.

12. INVESTMENT PROPERTY

	BUILDING	LAND	TOTAL
At December 31, 2019			
Cost	334,126,026	7,692,622,600	8,026,748,626
Accumulated Depreciation	(300,713,424)	0	(300,713,424)
Carrying Amount	**33,412,602**	**7,692,622,600**	**7,726,035,202**
Year Ended December 31, 2020			
Opening Net Book Value	33,412,602	7,692,622,600	7,726,035,202
Depreciation Expense	0	0	0
Closing Net Book Value	**33,412,602**	**7,692,622,600**	**7,726,035,202**
At December 31, 2020			
Cost	334,126,026	7,692,622,600	8,026,748,626
Accumulated Depreciation	(300,713,424)	0	(300,713,424)
Carrying Amount	**33,412,602**	**7,696,622,600**	**7,726,035,202**

This account pertains to the 632,054 sq. m. of land, 61 buildings and other structures owned by the Authority which are being leased to private and government entities. The total rental/lease income from Authority's investment property (General Aviation areas) amounted to P111.120 million and P110.615 million in 2020 and 2019, respectively (Note 27).

Based on the CY 2018 Appraisal Report of Celer Appraisal Inc. on MIAA land and buildings located at General Aviations, the fair market value of land ranges from P50,600 to P57,000 per sq. m.. The report also indicates its fair rental value on a monthly basis:

	Existing Rental Rate/month	Fair Rental Value/month
Open Area	47.31	172.84
Covered	33.79	150.00
Office	90.11	200.00

Buildings and other land improvements of General Aviations has a fair market value of P519.17 million.

13. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2020	2019 (As restated)
Deferred Tax Asset	**673,679,885**	639,848,496
Other Assets	**655,000**	655,000
	674,334,885	640,503,496

Deferred Tax Asset represents the differences between the carrying amounts of the assets and liabilities and their tax bases that may either be a future taxable amount or a future deductible amount (Note 31).

14. TRADE AND OTHER PAYABLES

This account consists of the following:

	2020	2019 (As restated)
Accounts Payable	**1,038,594,471**	911,165,885
Interest Payable	**29,357,613**	39,246,283
Dividends Payable	**0**	6,000,000,000
Other Payables	**472,757,591**	366,654,369
	1,540,709,675	7,317,066,537

Accounts Payable represents payables to suppliers/contractors for purchases of materials, supplies and other obligations to non-government entities in connection with the operation of the Authority.

Dividends Payable represents the 50 per cent of MIAA's annual net earnings (net of deductions allowed under Section 29 of the National Internal Revenue Code, as amended, and income taxes paid thereon) payable to the National Government and to be remitted to the Bureau of the Treasury (BTr), pursuant to Republic Act (RA) No. 7656 dated November 9, 1993. Section 3 of this Act requires government-owned or controlled corporations to declare and remit at least 50 per cent of their annual net earnings as cash, stock or property dividends to the National Government. Section 7(a) of the Revised Implementing Rules and Regulations of the Act provides for the timing of remittance, to wit: "Except as otherwise provided herein, all GOCCs shall declare cash dividends and shall remit to the BTr at least fifty per cent (50%) of the dividend due, on or before May 15 following the dividend year, based on the financial statements submitted to COA for audit."

For CY 2020, the Authority reported a net loss after tax of P1.247 billion, thus no dividends payable was accrued for the year.

Pursuant to RA No. 11469 known as the "Bayanihan to Heal as One Act", and RA No. 7656 known as the "Dividend Law", the Secretary of Finance requested to the Authority an additional remittance of P3 billion in CY 2019.

The dividends payable of P6 billion in CY 2019 was remitted to BTr on March 25, and April 3, 2020.

Other Payables represents payables to suppliers/contractors for their retention payments and other obligations to non-government entities of the Authority. It also includes the remittances of National Housing Authority for the collection from the sale of lot of Baclaran Tambo, Parañaque totaling to P15.153 million.

15. INTER-AGENCY PAYABLES

This account consists of the following:

	2020	2019
Due to BIR	**104,772,713**	822,350,507
Due to BTr	**77,340,004**	492,522,194
Due to GSIS	**19,744,818**	11,766,656
Due to Pag-IBIG	**1,151,604**	2,038,284
Due to PhilHealth	**965,716**	1,896,163
Due to Other NGAs	**170,719,053**	467,473,193
	374,693,908	1,798,046,997

Due to Bureau of Internal Revenue (BIR) represents taxes withheld on salaries, goods and services.

Due to Bureau of the Treasury (BTr) represents unremitted share of the National Government and the Office for Transportation Security (OTS) on the following:

	2020	2019
Authority income	**76,459,396**	440,296,928
Terminal fees	**550,380**	43,956,617
OTS share on domestic terminal fees	**330,228**	8,268,649
	77,340,004	492,522,194

Due to Government Service Insurance System (GSIS), Pag-IBIG and PhilHealth accounts represent premiums and loan amortization deductions from the employees' salaries for remittance to the concerned offices.

Due to Other National Government Agencies (NGAs) represents unliquidated portion of fund transfer from the Department of Transportation (DOTr) for the (a) NAIA Terminal 2 Rehabilitation Projects and (b) subsidy in line with the Bayanihan to Recover as Act One Act – Assistance Program and unremitted share of the OTS on international terminal fees.

	2020	2019
Bayanihan to Recover as One Act – Assistance Program	**134,389,353**	0
Rehabilitation of NAIA Terminal 2	**35,395,212**	418,301,451
Interest earned from the subsidy/others	**934,488**	364,030
OTS share on terminal fees	**0**	48,807,712
	170,719,053	467,473,193

Executive Order (EO) No. 277, dated January 30, 2004, created the OTS within the Department of Transportation and Communications (DOTC), now DOTr and reconstituted the National Council for Civil Aviation Security (NCCAS) as the National Civil Aviation Security Committee (NCASC). Section 2 of EO No. 277 directs the OTS to be primarily responsible for the implementation of International Civil Aviation Organization (ICAO) Convention on national security.

Letter of Instruction (LOI) No. 414 A, dated June 17, 1976, directs the collection of security fee for every departing passenger, as follows: P10 on international flights and P3 on domestic flights. It was amended by EO No. 30, dated September 30, 1998, increasing the collection of terminal fee to P60 and P15, respectively. LOI No. 414 A provides that the National Action Committee on Anti-Hijacking and Anti-Terrorism (NACAHT), for whose use the amounts collected are intended, is authorized to promulgate appropriate rules so that the collection of security fee can be done efficiently.

In 2003, MIAA Board Resolution (BR) No. 2003-074 was issued increasing the domestic passenger terminal fee for all departing passengers from P100 to P200, subject to existing rules and regulations.

Following the mandate of EO No. 30, series of 1998, MIAA BR No. 99-53 as amended by MIAA BR No. 2005-078, provides the following revenue sharing structure of the passenger terminal fees collected from both international and domestic passengers:

	International	**Domestic**
MIAA	390	185
NG	100	0
NACAHT	60	15
	550	200

In 2006, MIAA BR No. 2006-032 was issued which imposed the Security and Development Charge of US $3.50, or P200, on all international departing passengers not exempted by law, rules or regulations, for a period of five years, beginning on February 1, 2007 and ending on January 31, 2012.

EO No. 298 dated July 26, 1987 amending Section 11 of EO No. 903 dated July 21, 1983 provides: “Within 30 days after the close of each quarter, twenty per centum (20%) of the gross operating income, excluding payments for utilities of tenants and concessionaires and terminal fee collections, shall be remitted to the General Fund in the National Treasury to be used for the maintenance and operation of other international and domestic airports in the country” (Note 24).

16. LOANS PAYABLE - DOMESTIC

This account consists of outstanding domestic loans from the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) as set forth in the Syndicated Term Loan Facility Agreement dated July 4, 2011.

	2020	2019
LBP PN No. 4808 TL12 4076 000 dtd. April 11, 2012	**610,284,750**	854,398,650
DBP PN No. 2012-29-021 dtd. April 11, 2012	**610,284,750**	854,398,650
Less: Semi-annual amortizations	**(488,227,800)**	(488,227,800)
	732,341,700	1,220,569,500
Less: Current Portion	**(488,227,800)**	(488,227,800)
	244,113,900	732,341,700

Loans from both the LBP and DBP are payable in 20 semi-annual installments commencing on October 11, 2012 and ending on April 11, 2022, with 2.5 per cent interest per annum (subject to quarterly repricing) and penalty charge of 12 per cent per annum on the total amount due without grace period as additional charge in case certain stipulations are not met. Non-finance charge of P12.206 million for each loan was deducted. Both loans are guaranteed by the National Government.

17. LOANS PAYABLE - FOREIGN

This account consists of outstanding foreign loans secured by the Authority for the construction of Terminal 2.

	2020	2019
French Loan to finance consultancy services for the detailed architectural & engineering design of NAIA Terminal 2 contracted with Natixis (formerly Credit Nacionale)		
FF 1,771,796 = Euro 270,108.55 = US $302,953.75 @ 50.802		15,390,656
FF 1,046,798 = Euro 159,583.31 = US $195,345.93 @ 48.021	**9,380,707**	
Fund Releases made by Overseas Economic Cooperation Fund (OECF) of Japan financing the consultancy of Aeroport De Paris - Japan Airport Consultants (ADP-JAC) and contract with Mitsubishi Tokyo Oreta BF Corporation (MTOB)		
Y 3,514,952,000 = US $32,330,528.50 @ P50.802		1,642,455,509
Y 2,636,214,000 = US $25,568,639.59 @ P48.021	**1,227,831,641**	
	1,237,212,348	1,657,846,165
Less: Current Portion	**(415,774,164)**	(416,911,553)
	821,438,184	1,240,934,612

The French loan from Credit Nationale, now Natixis, is covered by Loan Agreements dated January 25, 1991 (DAN: 94-2089) for FRF 14.5 million and July 5, 1994 (DAN: 94-2232) for FRF 6.08 million. The loan dated January 25, 1991 is payable in 42 semi-annual installments commencing on June 30, 2002 and ending on December 31, 2022 with 2.5 per cent interest per annum, while the loan dated July 5, 1994 is payable in 29 semi-annual installments commencing on June 30, 2001 and ending on June 30, 2015 with 3.3 per cent interest per annum on the unpaid account.

Loan from Japan Bank for International Cooperation (JBIC), formerly OECF, now Japan International Cooperation Agency (JICA), is payable in 41 semi-annual installments commencing on August 10, 2003 and ending on August 10, 2023 with 5 per cent interest per annum including 2 per cent spread of the National Government.

18. FINANCE LEASE PAYABLE

The Authority rents its NAIA Terminal 3 sites from the Bases Conversion and Development Authority (BCDA). The lease is for a period of 25 years, with annual rental of 1 per cent of the appraised value at P30,000 per sq. m. in area comprising 634,843 sq. m. with 10 per cent escalation every 5 years.

The present value of the remaining rental payable to BCDA discounted at the incremental borrowing rate of 7.037 per cent as of January 1, 2019.

YEAR		Lease Payment (net of VAT) (A)	Discount Factor (7.037%)	Present Value of Lease Payment
1	2019	176,933,920	1.0000	176,933,920
2	2020	176,933,920	0.9343	165,301,643
3	2021	176,933,920	0.8728	154,434,114
4	2022	176,933,920	0.8155	144,281,057
5	Jan. 1 - August 16, 2023	120,896,197	0.7618	92,103,668
Finance Lease Payable, January 1, 2019				733,054,402

Schedule of remaining lease terms with BCDA based on the 25 years contract effective August 17, 1998:

YEAR		Lease Liability (Balance brought forward at January 1) (A)	Lease Payment (net of VAT) (B)	Interest (C = A*7.037%)	Decrease in Lease Liability (D = B-C)	Lease Liability (Balance carried forward at December 31) (E = A-D)
1	2019	733,054,402	176,933,920	0	176,933,920	556,120,482
2	2020	556,120,482	176,933,920	39,134,198	137,799,721	418,320,761
3	2021	418,320,761	176,933,920	29,437,232	147,496,688	270,824,073
4	2022	270,824,073	176,933,920	19,057,890	157,876,030	112,948,043
5	Jan. 1 – Aug. 16, 2023	112,948,043	120,896,197	7,948,154	112,948,043	0

As of December 31, 2020, the carrying amount of Finance Lease Payable is as follows:

Balance, January 1, 2020	556,120,482
Additions	0
Interest Expense	39,134,199
Payments	(176,933,920)
	418,320,761
Current Portion	147,496,688
Non-current Portion	270,824,073

19. OTHER LIABILITIES

This account consists of the following:

	2020	2019
Trust Liabilities	**838,377,383**	722,591,127
Customer's Deposits Payable	**354,246,259**	396,550,295
Leave Benefits Payable	**186,245,434**	176,254,225
Guaranty/Security Deposits Payable	**153,110,868**	140,687,659
Tax Refund Payable	**19,398,539**	28,614,688
Other Current Liabilities	**1,551,378,483**	1,464,697,994
Deferred Tax Liabilities	**0**	5,544,516
Other Non-current Liabilities	**0**	5,544,516
Total Other Liabilities	**1,551,378,483**	1,470,242,510

Trust Liabilities represents remittances of various airline companies starting July 2018 for unrefunded Terminal Fees of unflown tickets (Note 10).

Customer's Deposits Payable represents the airport lessees' and/or concessionaires' deposits equivalent to three months or as stated in the contract/temporary permit.

Leave Benefits Payable pertains to the accumulated unused leave credits of employees.

Guaranty/Security Deposits Payable represents cash received from contractors/suppliers to guarantee performance of contracts.

Tax Refund Payable represents excess taxes withheld from employees' compensation.

Deferred Tax Liabilities represents the differences between the carrying amounts of the assets and liabilities and their tax bases that may either be a future taxable amount or a future deductible amount (Note 31).

20. DEFERRED REVENUE

This account pertains to the following:

	2020	2019
Deferred Output Tax	**339,169,835**	261,734,217
Contra Account of Receivables-COA Disallowances	**17,390,246**	166,840,698
Unearned Revenue/Income	**135,278,123**	148,364,150
Other Deferred Credits	**47,887,668**	107,152,925
	539,725,872	684,091,990

Deferred Output Tax represents VAT amount which is not due until actual payment of the billed amount from clients.

Contra Account of Receivables-COA Disallowances decreased due to partial settlements made in CY 2020 and reversal of P149.052 million disallowances upon receipt of Notice of Resolution on G.R. No. 218388 dated September 1, 2020 (Note 8).

Unearned Revenue/Income pertains to the airport lessees' and/or concessionaires' one-month advance rental/concessions privilege fee.

Other Deferred Credits represents collected Output VAT from sale of goods and services.

21. GOVERNMENT EQUITY

This account includes the value of assets transferred to the Authority by the then Air Transportation Office, now Civil Aviation Authority of the Philippines, and the then Department of Transportation and Communications, now Department of Transportation (DOTr). This also includes the P605 million share of the National Government on the income of the Authority from 1983 to 1986 that was converted to National Government equity in accordance with EO No. 298. The increase in the account of P2.808 billion represents part of the value of the 22.3 hectares property of the Nayong Pilipino Foundation (NPF) that was transferred to the Authority pursuant to EO No. 58 dated September 29, 2011. The recorded value of said property amounting to P8.259 billion, includes the value of the building and land improvements of P11.018 million (Note 11), which includes the amount of P5.461 billion credited to the *Contributed Capital* account (Note 22).

22. CONTRIBUTED CAPITAL

This represents part of the P8.259 billion value of NPF property recorded under the account in the amount of P5.461 billion (Note 11).

Additional Capital Contribution – DOTr of P382.906 million on the partial liquidation made for NAIA Terminal 2 Rehabilitation project and P35.773 million on completed project for the Rapid Exit Taxiways were recognized in 2020 and 2019, respectively.

23. REVENUES

This account consists of the following:

	2020	2019 (As restated)
Landing and Parking Fees	**2,013,070,135**	5,262,464,243
Rent/Lease Income	**1,610,498,808**	3,595,028,864
Terminal Fees	**1,168,396,413**	5,497,157,387
Parking Fees	**76,200,447**	379,070,436
Royalty Fees	**48,609,703**	127,659,205
Other Service Income	**179,359,624**	334,142,917
	5,096,135,130	15,195,523,052

Other Service Income represents income from visitors' stick-on pass of P3.774 million in CY 2020 and P7.508 million in CY 2019 and utilities of P175.586 million in 2020 and P326.635 million in 2019.

24. NATIONAL GOVERNMENT SHARE ON MIAA'S GROSS INCOME

This represents the 20 per cent share of the National Government on the Authority's annual operating income based on actual cash collection, excluding income from utilities and terminal fee [Passenger Service Charge (PSC)] to be remitted to the General Fund in the National Treasury to be used for the maintenance and operation of other international and domestic airports in the country in accordance with Section 3 of EO No. 298 dated July 26, 1987, computed as follows:

	2020	2019
Landing and Parking Fees (Aeronautical Fees)	**1,273,607,718**	4,097,242,099
Rentals	**779,061,314**	2,377,457,288
Other Business Income (Concession Privilege Fees)	**673,546,013**	2,017,658,437
Other Service Income (Miscellaneous Revenues)	**89,040,600**	454,908,397
	2,815,255,645	8,947,266,221
Rate of Government's Share	**20%**	20%
National Government's Share	**563,051,129**	1,789,453,244

25. PERSONNEL SERVICES

This account consists of the following:

	2020	2019
Salaries and Wages	**471,652,467**	454,059,177
Other Compensation		
Overtime and Night Differential	**68,202,791**	88,190,781
Hazard Pay	**40,573,241**	12,561,145
Year-end Bonus	**39,665,402**	38,454,556
Personal Economic Relief Allowance	**33,705,273**	32,128,364
Representation Allowance	**9,028,833**	9,488,082
Clothing	**8,406,000**	8,012,220
Cash Gift	**7,081,250**	6,811,886
Laundry Allowance	**204,715**	83,502
Other Bonuses and Allowances	**138,345,248**	144,003,587
Personal Benefits Contribution		
Life and Retirement Insurance Contribution	**56,766,959**	54,733,452
PhilHealth Contribution	**6,757,039**	5,692,559
ECC Contribution	**1,710,200**	1,631,800
Pag-IBIG Contribution	**1,680,000**	1,631,900
Other Personnel Benefits		
Terminal Leave	**23,765,153**	50,534,955
Retirement Benefits	**2,661,395**	3,183,974
Other Personnel Benefits	**65,105,400**	65,662,107
	975,311,366	976,864,047

26. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2020	2019 (As restated)
Depreciation	**1,641,663,207**	1,594,371,782
General Services	**895,847,002**	876,601,687
Repairs and Maintenance	**782,822,580**	785,181,602
Professional Services	**667,104,121**	786,653,219
Utility Expenses	**655,268,627**	1,066,819,044
Supplies and Materials	**76,509,755**	76,263,840

	2020	2019 (As restated)
Taxes, Insurance Premiums and Other Fees	**70,818,730**	80,144,951
Extraordinary and Miscellaneous Expenses	**45,189,942**	27,846,918
Impairment Loss	**35,330,838**	24,487,079
Service Fee	**32,294,088**	197,626,968
Rent Expenses	**14,151,066**	12,471,831
Communication Expenses	**13,412,533**	12,942,722
Subscription Expense	**2,641,534**	2,209,646
Training Expenses	**2,617,151**	5,116,507
Membership Dues and Contributions to Organizations	**2,334,173**	2,501,483
Representation Expenses	**1,374,699**	1,836,813
Advertising Expenses	**820,992**	512,466
Traveling Expenses	**253,550**	875,289
Intelligence Expense	**0**	3,000,000
Donations	**0**	1,000,000
Other Maintenance and Other Operating Expenses	**0**	3,247
	4,940,454,588	5,558,467,094

27. LEASES

Authority as Lessor

The Authority also rents some of its terminal facilities to various lessees. The lease terms range between one month to five years, with monthly rental ranging between P374.22 and P13.345 million. Escalation rate is two per cent per annum after the third year for concessionaires with lease term of five years. Lease payments under operating leases recognized as income amounted to P981.885 million in 2020 and P1.442 billion in 2019.

At year end, the Authority has outstanding receivables under non-cancellable operating leases that fall due as follows:

	2020	2019
*Not later than one year	**1,625,221,686**	1,541,216,388
Later than one year but not later than 5 years	**125,359,349**	259,159,591
Later than 5 years	**0**	169,264,177
	1,750,581,035	1,969,640,156

* Not later than one year is inclusive of rental/lease income from Authority's investment property (General Aviation areas) amounting to P111.12 million (Note 12).

28. SUBSIDY INCOME

This account pertains to the rental of terminal concessionaires from November to December 2020 paid thru subsidy received from DOTr on December 22, 2020 amounting to P468.86 million in line with the Bayanihan to Recover as Act One Act – Assistance Program. This fund will cover the settlement of fees to assist the critically impacted businesses in the aviation industry, including those operating in Airport Terminal (Note 15).

29. INTEREST INCOME

This account pertains to interests earned on cash deposits and short-term investments totaling P337.464 million in 2020 and P632.172 million in 2019 (Notes 6 and 7).

30. FINANCE EXPENSES

This account consists of:

	2020	2019
Interest expense	**146,192,996**	199,989,705
Guaranty fees	**9,887,044**	14,646,834
Bank charges	**63,074**	114,748
Other financial charges	**4,985,783**	11,167,277
	161,128,897	225,918,564

31. INCOME TAX

Income tax expense for the years ended December 31 consists of:

	2020	2019
Current	**77,135,715**	2,165,477,005
Deferred	**(39,375,904)**	(12,301,601)
	37,759,811	2,153,175,404

The reconciliation of income tax expense computed at applicable statutory tax rates and income tax expense shown in the statements of comprehensive income is as follows:

	2020	2019
Income tax at statutory rate (MCIT for 2020)	**37,759,811**	2,151,702,464
Non-deductible depreciation expense	**0**	130,547,271
Non-deductible interest expense	**0**	59,996,911
Interest income subject to final tax	**0**	(189,651,849)
Prior years adjustments - credit	**0**	580,607
Effective income tax	**37,759,811**	2,153,175,404

Analysis of Deferred Tax is as follows:

	2020	2019
Leave benefits payable	**55,873,630**	52,876,267
Allowance for impairment of receivables	**387,767,489**	377,168,238
Unrealized foreign exchange loss	**229,387,537**	209,803,991
Deferred Tax Asset *(Note 13)*	**673,028,656**	639,848,496

Impact on equity on transition to PFRS 16 for the Right of Use of Asset	**651,228**	(5,544,516)
Deferred Tax Asset/(Liability) *(Notes 13 and 19)*	**651,228**	(5,544,516)

32. RESTATEMENT OF ACCOUNTS

The 2020 financial statements were restated to reflect the following adjustments:

Prior years' errors discovered in CY 2020

	December 31, 2018 (As previously reported)	**Restatement/ Adjustment**	**January 1, 2019 (As restated)**
STATEMENT OF FINANCIAL POSITION			
Prepayment	**660,126,545**	**(2,016,769)**	**658,109,776**
Unused supplies and materials per inventory count as of 12/31/20		*1,251,088*	
Reversal of double entry of PE in CY 2018 (VAT portion)		*(3,267,857)*	
Other Current Assets	**87,246,946**	**788,741,025**	**875,987,971**
Reclassification of Restricted Fund Assets from Non-Current to Current		*788,741,025*	
Property and Equipment, net	**35,602,854,778**	**(7,428,234,151)**	**28,174,620,627**
Reclassification of Land being leased to private and government entities to Investment Property		*(7,692,622,600)*	
Correction of prior years' errors (Accumulated depreciation adjustments)		*288,588,890*	
Reversal of double entry of PE in CY 2018, net		*(25,507,441)*	
To record back the cost of PE for disposal		*1,858,004*	
Derecognition/removal of expired MIAA softwares, systems and licenses		*(551,004)*	
Investment Property, net	**36,031,987**	**7,692,622,600**	**7,728,654,587**
Reclassification of Land being leased to private and government entities to Investment Property		*7,692,622,600*	
Other Non-Current Assets	**1,410,743,405**	**(788,741,025)**	**622,002,380**
Reclassification of Restricted Fund Assets from Non-Current to Current		*(788,741,025)*	
Trade and Other Payables	**4,731,722,045**	**(30,500,000)**	**4,701,222,045**
Reversal of double entry of PE		*(30,500,000)*	

	December 31, 2018 (As previously reported)	Restatement/ Adjustment	January 1, 2019 (As restated)
STATEMENT OF CHANGES IN EQUITY			
Retained Earnings	**31,354,974,527**	**292,871,680**	**31,647,846,207**
Correction of prior years' errors (Accumulated depreciation adjustments)		*290,313,592*	
Unused supplies and materials per inventory count as of 12/31/20 (prior years' purchases)		*1,251,088*	
To record back the cost of PE for disposal		*1,858,004*	
Derecognition/removal of expired MIAA softwares, systems and licenses		*(551,004)*	

	December 31, 2019 (As previously reported)	Restatement/ Adjustment	January 1, 2020 (As restated)
STATEMENT OF FINANCIAL POSITION			
Trade and Other Receivables, net	**3,185,917,580**	**26,593,272**	**3,212,510,852**
Under accrual of CY 2019 unbilled income		*26,593,272*	
Prepayment	**752,718,641**	**(2,016,769)**	**750,701,872**
Unused supplies and materials per inventory count as of 12/31/20 (prior years' purchases)		*1,251,088*	
Reversal of double entry of PE in CY 2018 (VAT portion)		*(3,267,857)*	
Other Current Assets	**87,255,216**	**1,147,864,682**	**1,235,119,898**
Reclassification of Restricted Fund Assets from Non-Current to Current		*1,147,864,682*	
Property and Equipment, net	**36,192,850,929**	**(7,417,305,118)**	**28,775,545,811**
Reclassification of Land being leased to private and government entities to Investment Property		*(7,692,622,600)*	
Correction of prior years' errors (Accumulated depreciation adjustments)		*288,597,997*	
Reversal of double entry of PE in CY 2018, net		*(22,920,387)*	
Reclassification of prior years' expenses to CIP		*8,332,873*	
To record back the cost of PE for disposal		*1,858,004*	
Derecognition/removal of expired MIAA softwares, systems and licenses		*(551,005)*	
Investment Property, net	**33,412,602**	**7,692,622,600**	**7,726,035,202**
Reclassification of Land being leased to private and government entities to Investment Property		*7,692,622,600*	
Other Non-Current Assets	**1,788,368,177**	**(1,147,864,681)**	**640,503,496**
Reclassification of Restricted Fund Assets from Non-Current to Current		*(1,147,864,681)*	
Trade and Other Payables	**7,347,566,537**	**(30,500,000)**	**7,317,066,537**
Reversal of double entry of PE		*(30,500,000)*	

	December 31, 2019 (As previously reported)	Restatement/ Adjustment	January 1, 2020 (As restated)
STATEMENT OF CHANGES IN EQUITY			
Retained Earnings	**30,429,842,212**	**330,393,986**	**30,760,236,198**
Correction of prior years' errors (Accumulated depreciation adjustments)		*292,909,754*	
Under accrual of CY 2019 unbilled income		*26,593,272*	
Reclassification of CY 2019 expenses to CIP		*8,332,873*	
Unused supplies and materials per inventory count as of 12/31/20 (prior years' purchases)		*1,251,088*	
To record back the cost of PE for disposal		*1,858,004*	
Derecognition/removal of expired MIAA softwares, systems and licenses		*(551,005)*	
STATEMENT OF COMPREHENSIVE INCOME			
Net Income	**5,019,166,142**	**37,522,305**	**5,056,688,447**
Adjustments in CY 2019 Net Income			
Under accrual of unbilled income		*26,593,272*	
Overstatement of depreciation expenses		*2,596,160*	
Reclassification of expenses to CIP		*8,332,873*	

Note: Prior years' adjustments to PE pertains to unaccounted balances of various accumulated depreciation accounts since CY 2008, wherein overstatement/understatement of previous years' depreciation were adjusted to Retained Earnings.

The Authority presented three-year statements of financial position in compliance with the requirement of PAS 1, Presentation of Financial Statements, to include a complete set of financial statements as statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies as accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

33. OTHER MATTERS

a. Board Resolution No. 2020-014
Reprieve from Payment of Certain Airport Fees and Charges
(superseded by Board Resolution No. 2020-020 and 2020-044)

The MIAA thru its Board of Directors, approved the grant of the reprieve from payments of certain airport fees and charges as its way of alleviating the adverse financial impact of COVID-19 to its stakeholders as follows:

1. Deferment of payment of aeronautical fees of local air carrier for a period of one-year effective March 1, 2020 billings;

2. Rental Holiday for all concessionaire operating at the terminals to include check-in counter usage from March 15, 2020 to December 31, 2020 as summarized below:

Particulars	Amount
Rental	787,467,512
Check-In-Counter	122,738,175
Garbage Collection Fee	7,130,567
Others	1,180,469
TOTAL	**918,516,723**

3. Waiver of interest charges for late settlement of accounts from March 15, 2020 to December 31, 2020.

b. Board Resolution No. 2020-048 dated October 15, 2020

The MIAA thru its Board of Directors, approved the grant of the reprieve from payment of Concessions Privilege Fees to all airport transport concessionaires effective March 17 to 31, 2020 and from August 4 to 18, 2020 for a total of 91 days or equivalent to three months and one day totaling to P8.19 million.

c. Board Resolution No. 2019-046 dated September 26, 2019
Early Retirement Incentive Program (ERIP) in RE: Amended MIAAs Organizational Restructuring Proposal

Relative to MIAAs Organizational Restructuring Proposal (ORP), MIAA was advised by the Governance Commission for GOCCs (GCG) to comply with the additional requirements of the Commission enumerated in GCG Memorandum Circular No. 2015-4 issued on May 2, 2016. MIAA prepared separation package for those personnel whose positions will be affected in the MIAA ORP, with two options:

1. To remain in government service and apply to other available positions in the agency; and

2. To avail of retirement plus the ERIP as part of the ORP of the MIAA, subject to the approval of the President, based on the following formula:

Years of Service	Equivalent ERIP Gratuity
Up to 20 years	1 x Basic Monthly Salary
Above 20 years up to 30 years	1.5 x Basic Monthly Salary
Above 30 years	2 x Basic Monthly Salary

Employees with age 50 years old and above with minimum of 15 years in service were also included in the computation, should they opt to avail the proposed ERIP. The total amount to be incurred for the proposed ERIP is P895.59 million.

MIAA ERIP was already forwarded by the Department of Transportation to the Office of the President thru the GCG.

d. Receivable from Private Concessionaire with Pending Case

Philippine Airport and Ground Services (PAGS) (Civil Case No.000363) – P112.39 million.

This is an action to enjoin MIAA from increasing the rental rates for the premises (Open Area A and Open Area B) mentioned in the Revised and Restated Contract of Lease between parties. PAGS claims that the Restated Contract does not contain any escalation clause. MIAA, however, claims that the Restated Contract is null and void as it was not approved by the MIAA Board.

Hearing is ongoing. PAGS is presenting its witnesses. The Office of the Solicitor General (OSG) has recommended Compromise Agreement in view of the prevailing doctrine in Airspan. MIAA had sent its intention to compromise but no response was received from PAGS.

e. Airspan Case: Rate Adjustments

The Philippine Airlines (PAL), Macroasia Airport Services Corporation, and Macroasia Catering Services have, likewise, filed separate claims with the Authority for refund of rentals pertaining to the increase that was invalidated for lack of publication as ruled by the Supreme (SC) in the Airspan case. Said claims for refund, estimated at P1.2 billion, are still subject to the approval of the Office of the Government Corporate Counsel and the adjudication of the money claims by COA (MIAA Board Resolution No.2010-026). However, the MIAA Board of Directors issued Resolution No. 2017-103 dated January 8, 2018 recalling and cancelling MIAA Board Resolution No. 2010-026. Management sent letters to PAL and Macroasia to file money claims before COA. On December 26, 2018, PAL filed money claim before COA against MIAA for the refund of rentals paid for the period June 1999 to October 2016 in the amount of P2.09 billion.

In view of the prevailing doctrine in Airspan case, the Authority had determined accounts that may be subject to refund in case a proper claim is filed by the affected parties.

f. Samahang Manggagawa sa Paliparan ng Pilipinas (SMPP) vs. MIAA
Civil Case No. 05-1422-CFM
Regional Trial Court (RTC), Branch 119, Pasay City

A petition for Mandamus was filed by petitioners SMPP before the RTC of Pasay City praying for the issuance of a Writ of Preliminary Mandamus ordering respondent MIAA to implement Section 4.1 of Department of Budget and Management (DBM) Corporate Compensation Circular No. 10 by integrating, including and/or adding the Cost of Living Allowance (COLA) and Amelioration Allowance (AA) into the basic salaries for the respective positions of the individual petitioners effective July 16, 1999 up to the present.

Thereafter, respondent MIAA Board of Directors was directed to issue the necessary Board Resolution: (1) appropriating funds to pay COLA and AA of petitioners which were not integrated, included and/or added to their respective basic salaries commencing on July 16, 1999 up to the present; (2) directing the release of said funds as back pay for COLA and AA; and (3) allowing the grant of continuing COLA and AA.

The RTC affirmatively acted on the prayer for issuance of Mandamus and issued a decision upholding petitioner's position.

Dissatisfied with the said ruling, MIAA elevated on appeal the said decision to the Court of Appeals (CA). In a decision, dated July 30, 2010, the CA reversed and set aside the RTC's decision.

The case has a total estimated liability of P2.36 billion for similarly situated now pending before the SC. In January 2019, the SC is requiring the parties to inform the court if there are developments to assist the court in the resolution of the case.

g. Accounts under Litigation

1. People's Aircargo and Warehousing Co., Inc. (PAIRCARGO) vs. MIAA
Civil Case No. 00-304
RTC, Branch 110, Pasay City

This is a case filed by PAIRCARGO against MIAA questioning the increase in rental rates as mandated by Administrative Orders issued by the MIAA Board. Said concessionaire alleged that MIAA has no legal right to increase its rental rates because the concessionaire's lease contract with the then Civil Aeronautics Administration (CAA), which was renewed in 1991 under the pre-emptive right of the lessee, does not provide an escalation clause. By agreement of the parties, the status quo will be maintained during the pendency of the case.

Hearing is ongoing. The OSG is recommending Compromise Agreement in view of the prevailing doctrine in Airspan.

2. Avia Filipinas Int'l. Inc. vs. MIAA
G.R. No. 180168
Supreme Court (SC)

This is a case filed by Avia Filipinas against MIAA stemming from the increase in the former's monthly lease rentals from P6,580 per month to P15,966.50, or P9,386.50 increase per month, effective September 1, 1991 to September 30, 1994, for a total of P347,300.50. The increase was based on Section 2.04 of the lease contract and Administrative Order No. 1, series of 1990, which embodied the increase in rentals of the properties being leased by MIAA to its lessees and concessionaires. However, Avia Filipinas refused to pay the increased rentals, claiming that under Section 8.13 of the lease contract, *"any amendment, alteration, or modification thereof shall not be valid and binding, unless and until made in writing and signed by the parties thereto"*. It claimed that since it did not sign the rental increase embodied in Administrative Order No. 1, series of 1990, the said increase is not valid and binding.

On March 21, 2003, the lower court rendered a decision in favor of Avia Filipinas ordering MIAA to pay Avia Filipinas P2 million actual damages, P2 million exemplary damages, P100,000 attorney's fees, and costs of suit and to refund the monthly rental payments beginning July 1, 1997 up to March 11, 1998 with 12 per cent interest.

MIAA appealed to the CA which rendered a decision on June 19, 2007, deleting the award of actual and exemplary damages and reducing from 12 to 6 per cent the interest on the monthly rentals to be refunded beginning July 1, 1997 up to March 11, 1998. The 6 per cent interest is to begin from date of filing of the complaint until finality of the decision. A 12 per cent interest shall be imposed on any unpaid balance from such finality until judgment is fully satisfied. The award of attorney's fees still stands.

MIAA brought the case to the SC by way of a Petition for Review on December 7, 2007.

The SC, in its Decision dated February 27, 2012, denied MIAA's petition and affirmed the resolution of the CA. A Motion for Reconsideration was filed by MIAA before the SC.

MIAA is awaiting the Writ of Execution, but Avia Filipinas has not come forward to execute the judgment award.

3. **Domestic Petroleum Retailer Corp. vs. MIAA**
   CA Second Division
   RTC Branch 119, Pasay City

   This is a case for collection of sum of money. DPRC is seeking the refund of the increase in rentals it allegedly paid under protest to MIAA in the principal amount of P9,593,179.87 plus legal interest computed from the time of judicial demand on July 27, 2006, and the sum of P300,000 as and for attorney's fees and the cost of the suit. The case is pending before the RTC.

4. **Conrado P. Cosico, Jr. and Antonio P. Cosico vs. MIAA**

   This is a case for consignation with prayer for issuance of temporary restraining order (TRO) and Preliminary Injunction. The Cosicos are seeking to compel MIAA to honor the lease contract which was entered into by their predecessors and the CAA which they claim to have been renewed by MIAA. The plaintiff prayed for P200,000 attorney's fees. The case is pending before CA.

5. **Inter-Asia Services Corporation vs. MIAA**

   This is a case for breach of contract. MIAA terminated the contract of Inter Asia for the lease and operation of Parking A of NAIA Terminal 1 for failure of the plaintiff to comply with the conditions of the contract, i.e. construction of the multi-level parking lot. Plaintiff countered that MIAA was the first to breach the contract since it did not reduce the Concession Privilege Fee (CPF) by 40 per cent. It prayed for at least P1 million for actual damages and P600,000 for attorney's fees. The case is pending before the RTC, Makati City.

6. **SPS. Nocom and Kieng vs. MIAA**

   This is a case for recovery of possession and accounting of rental. Plaintiffs are the registered owner of parcel of land consisting of 9,867 sq.m, more or less, covered by TCT No. 109416. NAIA occupied the said land without authority from the plaintiffs sometime in 1995. Hence, a claim for just compensation for the subject lot was filed by the Plaintiff.

   The CA in its decision dated May 20, 2015 ordered MIAA to pay the Nocoms the sum of P41.24 million as rentals from December 1995 until December 2014 plus interest of 12 per cent per annum from date of decision until fully paid; and, beginning January 2015 to pay monthly rental of P176,406.33 with 12 per cent interest from the date of default until fully paid. The case is pending appeal before the SC.

7. **Corazon Cruz vs. MIAA**

   This is a case for quieting of title with recovery of ownership and damages. Cruz claims to be the owner of a parcel of land in MIAA's possession and prayed for MIAA to pay P500,000 for moral damages; P200,000 attorney's fees; P500,000 for the costs of litigation and three per cent of the gross value of property. The RTC and the CA decided in favor of MIAA. The case is pending appeal before the SC.

8. **Aviation Technology Innovators, Inc. (ATII) vs. MIAA**

   This is a case for damages, fixing the period of contract of lease and declaring the rental rate and interest null and void with application for issuance of preliminary injunction with prayer for TRO and/or Status Que Ante.

   ATII entered to a contract of lease with the defendant MIAA for a period of one (1) year. On February 21, 2014, MIAA sent a demand letter to the plaintiff demanding the latter to pay its alleged outstanding account amounting to P59.74 million. On the strength of the Airspan decision, ATII proposed to pay the computed principal obligation in the amount of P6.04 million and interest of P42.48 million in 24 months. Hence, the case where ATII prayed for MIAA to pay the sum of P500,000 as and by way of moral damages, P100,000 as exemplary damages and P200,000 as and by way of attorney's fees. The case is pending before the CA.

9. **ARINC Incorporated vs. MIAA**

   This is a case for petition for money claim filed by ARINC Inc. before the COA for services rendered in the amount of USD 261,112.40.

10. Duty Free Philippines vs. MIAA

This is a case pending before the Office of the Government Corporate Counsel for arbitration. Duty Free seeks the refund of payments. The claim for refund arose from the SC decision in Airspan et al. MIAA G.R. 157581 (December 1, 2004) which declared null and void MIAA Board Resolutions which increased the rental charges for certain areas within the Airport. The amount claimed as of March 31, 2017 amounts to P77.13 million and USD0.627 million plus two per cent interest compounded annually.

34. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth under BIR Revenue Regulation (RR) No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

1. The Authority is a VAT-registered company with output tax declaration of P353,878,871 for the year based on the amount reflected in the Sales Account of P2,948,990,593.

   The Authority has Zero-Rated Sale of Services amounting to P1,259,841,142 pursuant to Section 12 of RR-4-2007.

2. The amount of VAT input taxes claimed are broken down as follows:

a. Balance at the beginning of the year	280,626,563
b. Current year's purchases	
I. Goods for resale/manufacture or further processing	0
II. Goods other than for resale or manufacture	20,781,069
III. Capital goods subject to amortization	34,682,322
IV. Capital goods not subject to amortization	435,382
V. Services lodged under cost of goods sold	0
VI. Services lodged under other accounts	465,587,469
	521,486,242
c. Claims for tax credit/refund and other adjustments	
I. Prior year's set-up/accrual	(7,833,509)
II. Current year's set-up/accruals	1,284,921
III. Cancelled checks/transactions and adjustments	(19,969,771)
IV. Available input tax and tax deferred for succeeding period	(488,468,280)
	(514,986,639)
d. Balance at the end of the year	287,126,166

3. The amount of withholding taxes paid/accrued for the year amounted to:

I. Tax on compensation benefits	54,428,048
II. Creditable withholding taxes	98,176,728
III. Final withholding taxes	7,799,889

IV. Value-Added Tax and Other Percentage taxes withheld	223,823,807

4. Schedule of Other Taxes and Licenses

Real Property Tax	1,455,531
Network/Radio station license and RLM certificate (National Telecommunications Commission)	728,490
Airport Coordination Australia (Annual Administrative Fee)	468,188
Registration/Emission Testing and Inspection	259,092
Registration fees for issuance of patent of MIAA titles (Land Registration Authority)	94,880
Tax on French Loan & adjustment of Foreign Exchange	35,246
Permit to operate generator sets and diesel storage (Environmental Management Bureau-NCR)	45,000
Community Tax (Pasay City Treasurer)	10,500
Annual VAT Registration	500

A. FINANCIAL AUDIT

1. 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.

1.1 *Verifiability helps to assure users of the financial statements that information therein faithfully represents the economic phenomena it purports to represent*[1].

1.2 MIAA disclosed in Note 4 to the financial statements (FS) that *Land is stated at cost less any impairment in value.*

1.3 MIAA owns 6,338,292 square meters (sq. m.) of land, with a total value of P14.789 billion, as disclosed in Note 11 to FS, which is summarized below:

Table 1 – Composition of Land

Particulars	Area in sq. m.
Land owned based on a Cadastral Survey dated January 5, 1987	6,250,905
Sold to the Light Rail Transit Authority at P1,000 per sq. m. in 1991	(107,179)
Purchased from the heirs of Eladio Santiago at P2.16 million in 2003	720
Purchased from the Nayong Pilipino Foundation (NPF) at P500 million in 2004	86,000
President Benigno Aquino III signed EO No. 58 mandating the transfer of real estate property owned by the NPF to the Authority which consists of *22.3 hectares, more or less*, located in Pasay City on September 29, 2011. The owner's duplicate copies of TCTs are still under the custody of the NPF and have not been transferred to MIAA. This was recorded in the books of the Authority in 2017 at its Fair Market Value at the date of acquisition amounting to P8.259 billion as determined by an independent/third party appraiser.	223,000
The Office of the President approved the request of the DPWH for the transfer through sale in its favor a part of MIAA property (Lot 3270-B-3-A-2-A-2 under TCT No. 141810), in the total amount of *P540.06 million or at zonal value of P10,000* per sq.m. The subject property was used by DPWH for the construction of the Circumference Road 5 (C-5) Extension Project from South Luzon Expressway in Pasay City to Sucat Road, Paranaque City on December 11, 2013,	(54,006)
On December 18, 2018, MIAA and Department of Public Works and Highways (DPWH) signed a Memorandum of Agreement (MOA) to implement the Republic's approved construction of the C5 South Link Expressway Project (C-5 SLEP). MIAA conceded to absolutely and irrevocably sell, transfer and convey to DPWH the *61,148 sq.m.* total affected land area. DPWH agreed to buy the said land area of re: [Segment 3A-1: 18,959 sq. m.; Segment 3A-2: 39,996 sq. m; 58,955 sq. m. and TCT No, 6735: 2,193 sq. m.] for a total just compensation of P1.847 billion.	(61,148)
Total land area owned by MIAA	**6,338,292**

[1]From Conceptual Framework for Financial Reporting

1.4 The MIAA Land Asset Inventory CY 2021[2] submitted to the Audit Team contains, among others, the location, TCT No., area of the properties and fair market value. However, the total cost of land asset, corresponding to the TCTs, that should tally with the following amount presented in the financial statements of P14.789 billion was not indicated/presented:

Table 2 – Presentation of Land Assets per FS

Land Assets per FS	Area (in sq. m.)	Amount
Property and Equipment-Land	5,706,238	7,096,709,433
Investment Property-Land	632,054	7,692,622,600
	6,338,292	14,789,332,033

1.5 Land assets with an area of 632,054 sq. m., per Table 2, were reclassified and presented as Investment Property – Land in CY 2020. Such reclassification is subject to further validation pending the outcome of accounting of land assets that would tally with the area and cost presented in the financial statements.

1.6 Moreover, the Audit Team noted transactions and events that may have effect on the Land account balance as follows:

a. There is a variance of 193,723 sq. m. between the records of Accounting Division (AD) and Business and Real Estate Investment Development Division (BREIDD) as shown below:

Table 3 – Land Owned by MIAA

Area of land owned by MIAA:	In sq. m.
Per AD	6,338,292
Per BREIDD	6,532,015
Variance	193,723

b. Some TCTs include portions owned by San Antonio Developers Corp (SADC), and Jose and Luis de Leon. Only the 4,874-sq.m. portion of lands owned by MIAA was included in the List of MIAA Land Assets Inventory, however, the Deed of Sale or any document related to co-ownership with SADC and other third party on these lands was not furnished or presented to the Audit Team. This was also not disclosed in the Notes to FS on Land.

c. Some lots identified by “Lot Numbers” included in the MIAA Land Asset Inventory cannot be traced to/from the Map of MIAA Lots being used by the BREIDD in locating and identifying MIAA-owned lots. Those lots that are not included in the List of MIAA Land Assets Inventory but are identified as MIAA lots per Map may indicate incomplete Inventory of Land Assets. A more detailed map has been requested from BREIDD but not

[2] There was no transaction affecting land account subsequent to December 31, 2020, hence the Audit Team used the MIAA Land Asset Inventory CY 2021 during the audit.

yet submitted as of this report date. Clarification on this may be necessary, to determine completeness of MIAA-owned lots.

d. There is a 482 sq. m. variance on the area of Land covered by TCT No. S-142164 per Map of MIAA Lots and per TCT/Inventory of Land Assets as follows:

Table 4 – TCT No. S-142164 per Schedule and TCT

Per Map	2,823,720 sq.m.
Per TCT No. S-142164/Inventory of Land Assets	2,823,238 sq.m.
Variance	482 sq.m.

e. Levy and/or sale of land in favor of the Local Government Unit (LGU) of Pasay City related to the non-payment of real property taxes was annotated on some TCTs. The case related to this has already been decided by the Supreme Court[3], but the court decision is not annotated in the TCT, and the annotations on levy and sale are not cancelled as of this date.

f. 475,579 sq. m. are covered by Presidential Proclamations (PPs).

f.1 The PPs awarding MIAA land to qualified beneficiaries have the following status:

Table 5 – Status of PPs

PP No.	Area in sq. m.	Status/Remarks
135	37,795	MIAA is receiving payments thru National Housing Authority (NHA). There is a total difference of 3,133 sq. m. between the proclaimed areas and MIAA survey (per submitted MIAA map). The Memorandum of Agreement (MOA) with NHA provides for P1,000.00/sq. m. consideration, net of certain charges. It was also stated that upon remittance of collection, NHA shall provide MIAA a summary of collection and other related collection documents.
144/391	142,806	It is noted that Maricaban III with an area of 13,300 sq. m. awarded thru this Proclamation is not included in the submitted list of MIAA Land Asset Inventory. There is also a difference of 8,617 sq. m. between the proclaimed area and MIAA survey (per submitted MIAA map) on Don Carlos area.
595	251,448	No update
380 (DSWD)	20,576	No update
970	22,954	Per interview, the main reason for non-implementation of this Proclamation (employees' housing program) is employees' non-capability to pay the least possible installment to be able to avail necessary funding. Part of the proclaimed area are occupied by Informal Settler Families
	475,579	

[3]G.R. No. 155650 dated July 20, 2006

f.2 On PP Nos. 144/391 and 595, there was no indicated amount of consideration to be received by MIAA based on the related MOA, but there is a clause that provides NHA's role and responsibility, which is quoted partly as follows:

> 7. *Dispose the lots to qualified beneficiaries through Deed of Conditional Contract to Sell based on approved policy guidelines on beneficiary selection and lot disposition;*
>
> 8. *Implement sanctions to defaulting buyers or any violations on the contract made by the buyer.*

f.3 Based on the Collection Report from the Collection Division, generated using the current collections system, NHA remitted P8.323 million covering CYs 2011-2020. Remittances prior to CY 2011 were not captured by the current collection system.

f.4 On the other hand, the Schedule of Other Payables prepared by the AD showed P15.353 million remittances from the NHA as early as 2004 to December 31, 2020.

f.5 It was MIAA's accounting practice to recognize collections from NHA as Other Payables pending determination of the nature/purpose and proper accounting treatment of such remittances. Furthermore, no receivable pertaining to the disposition of lots was recognized which may result in understatement of Receivables account by at least P34.662 million[4] based on the assumption that P1,000 per sq. m. is the compensation to be received by the MIAA as provided in the relevant MOA with NHA.

f.6 Because of the non-presentation of guidelines on the recognition of transactions related to the disposition of land covered by PPs, the Audit Team cannot determine whether: a) land covered by the PPs are already for derecognition, b) the P15.353 million remittances of the NHA recognized as Other payables are valid liabilities, and c) if there are related accounts affected by these transactions.

g. Land assets, with an area 1,326,934 sq. m., were not titled in the name of MIAA or the Transfer Certificates of Title (TCTs) were not presented during the inventory, hence ownership was not appropriately proven or established.

g.1 The TCT is the best proof of ownership of a piece of land.

g.2 Inspection of TCTs of MIAA-owned land assets was conducted, and it was noted that 1,326,934 sq. m., were not titled in the name of MIAA or the TCTs were not presented during the inspection, hence ownership on those land was not proven.

[4] PP No. 135 with survey area of 34,662 sq. m. at P1,000/sq. m.

i. *305,926 sq. m., originating from TCT No. 6735.* TCT No. 6735 has already been subdivided into several lots. Lots identified by their "Lot Numbers", with a total area of 305,926 sq. m., originating from TCT No. 6735 were included in the List of Land Assets but the resulting TCTs, under the name of MIAA, from the subdivided TCT No. 6735 is yet to be processed/issued.

ii. *524,862 sq. m. expropriated and purchased lots still untitled*. Based on the Summary of MIAA Lots, 157,908 sq. m. of these lots are unregistered/untitled land with previous approved plan submitted to the Department of Environment and Natural Resources (DENR) for Special Patent, while 366,954 sq. m. are unregistered/untitled lands without approved plan which are included in the Memorandum of Agreement with the DENR.

iii. *158,771 sq. m. lots disputed by previous owner*s. Ownership of lots with a total area of 158,771 sq. m. occupied by MIAA for about 30 years are disputed by previous owners. TCTs are not yet under the name of MIAA. Some were transferred by the previous owners to other persons without the knowledge of MIAA despite the expropriation.

iv. *309,546 sq. m. TCT of the land previously owned by Nayong Pilipino Foundation (NPF)*. This was mentioned in Note 11 to FS, but such disclosure will not address the issue on the non-availability of TCTs in the name of the MIAA.

v. *27,829 sq. m. from TCT No. (28965) 010-136797.* TCT No. (28965) 010-136797 with a total area of 33,483 sq. m., supported with duplicate copy of TCT, was presented to and validated by the Audit Team, but was not included in the updated MIAA Land Assets Inventory. The owners indicated in the mentioned TCT are two other parties. There is a Court decision in favor of MIAA annotated on the TCT on the ownership of Lot 2 with an area of 27,829 sq. m.

1.7 Considering that the information contained in the financial statements is not verifiable because of the incomplete details of the MIAA Land Asset Inventory, and the noted observations, we were not able to verify and obtain sufficient evidence to conclude on the completeness and valuation of the reported land assets. Consequently, users of the FS would have no sound basis to place trust on the information.

1.8 We recommended that Management:

a. Account all the land assets owned by the 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;

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 (NHA) 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 (AD) and Business and Real Estate Investment Development Division (BREIDD), 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.**

1.9 Management commented that they prepared the revised MIAA Land Asset Inventory per TCT with indicated Market Value, actual use and present occupant**.** These TCTs are now being tallied with the amount of land assets recorded per books. Likewise, they will provide the Audit Team with the results of this reconciliation as soon as they have completed it.

1.10 In addition, they informed the Audit Team that a letter was sent to the Treasurer's Office of Parañaque City on June 4, 2021 requesting for the issuance of a Certification or any other document, which they can present to the Register of Deeds for the cancellation of the annotations on the Notice of Levy, Warrant of Levy and Certificate of Sale on the TCTs of land owned by the MIAA.

1.11 They have also prepared an updated list of MIAA Land Assets including those covered by PPs.

1.12 The BREIDD shall update and coordinate with AD every time a Deed of Conveyance and/or MOA will be issued or executed in favor of NHA for the remaining property under PPs so that the latter can monitor and record the changes in the MIAA Land Assets Inventory.

1.13 Furthermore, Management commented that of the 44 untitled MIAA lots/properties applied for Special Patent, 13 lots have been issued with Special Patents and already titled in the name of MIAA. The remaining 31 lots are still pending with the Licenses, Patents and Deeds Division of the DENR-NCR.

1.14 They also sent letter to the Regional Executive Director, DENR-NCR dated June 7, 2021 requesting assistance to expedite the issuance of Special Patents for these remaining untitled lots/properties.

1.15 The Audit Team was not able to validate whether the TCTs for the 13 lots that was allegedly titled in the name of the MIAA were presented to the Audit Team during inspection of TCTs, because the specific TCT Nos. were not mentioned, however, it was disclosed that no new TCTs were issued after the inspection.

1.16 The Audit Team will monitor the action taken by Management on the recommendations.

2. Property and Equipment (PE) amounting to P41.730 billion, with carrying amount of P21.635 billion, may not be a faithful representation of portions of MIAA's assets because the completeness and their existence could not be validated due to incomplete/improper inventory taking. The non-submission of Report on Physical Count of PPE (RPCPPE), showing the quantity per Property Card and per Physical Count, prevented the determination of the total value of PE counted and still in good condition.

2.1 Paragraph 15 of the Philippine Accounting Standard (PAS) 1 states that "*Financial statements shall present fairly the financial position and financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting (Conceptual Framework)*."

2.2 Likewise, COA Circular No. 2020-006, dated January 31, 2020, prescribes the guidelines and procedures to assist government agencies in coming up with reliable property, plant and equipment balances that are verifiable as to existence, condition and accountability. Government-Owned or Controlled Corporations are among those covered by the Circular.

2.3 Section 5 of the Circular, on the General Guidelines, enumerates the 12 steps in coming up with a reliable PE balance. The last step provides as follows:

5.12 Property records shall be updated based on the results of the physical inventory and reconciled with the accounting records to come up with the reconciled balance of the agency's PPE.

2.4 As of December 31, 2020, the Authority presented PE costing P48.826 billion, with carrying amount of P28.731 billion, as follows:

Table 6 – Composition of PE

Description	Cost	Accumulated Depreciation	Carrying Value
Land and Land Improvements	*11,950,578,115	3,872,064,941	*8,078,513,174
Airport System	25,932,249,245	9,535,155,854	16,397,093,391
Development/Construction in Progress	1,630,887,294	0	1,630,887,294
Buildings and Structures	410,012,528	326,772,947	83,239,581
Machineries and Equipment	8,902,714,255	6,360,761,735	2,541,952,520
Total as of December 31, 2020	**48,826,441,437**	**20,094,755,477**	**28,731,685,960**

**Includes MIAA owned land assets classified as PE amounting to P7,096,709,433. Land assets is covered by a separate observation in paragraph 1.*

2.5 The Authority's CY 2020 Physical Inventory Report - PPE (Inventory Report), with supporting documents, was submitted to the Audit Team on June 2, 2021. The Inventory Committee stated in the CY 2020 Inventory Report submitted to the General Manager of the MIAA that *they have completed the physical count of PPE, and the report on the results of the physical count was verified and reconciled with the records of both the Property Management Division (PMD) and the Accounting Division (AD).*

2.6 However, the Audit Team noted the following relative to the inventory-taking as well as on the covering Inventory Report and its supporting documents:

a. The RPCPPE was not prepared and submitted by the Inventory Committee.

Section 6.2.10 of COA Circular No. 2020-006, requires that *upon completion of the physical count, the Inventory Committee shall prepare the RPCPPE using the prescribed format under the GAM.* The RPCPPE is the form used on the physical count of PPE by type such as land, land improvements, infrastructure, building and other structures, machinery and equipment, furniture, fixtures and books, etc. which are owned by the Agency. The use of the form is being implemented even before the issuance of COA Circular No. 2020-006. It shall be prepared yearly, and the deadline for submission to the Audit Team is every January 31 of each year pursuant to COA Circular No. 80-124 dated January 18, 1980.

A properly filled up RPCPPE should show among others the following:

- Type of property, plant and equipment;
- Article;
- Description of the article;
- Property Number;
- Unit Value;
- Quantity per Property Card;
- Quantity per Physical Count;
- Shortage/Overage; and
- Remarks, such as the whereabouts, conditions and other relevant information relative to the PPE.

The Report shall be certified correct by the Inventory Chair and Members and approved by the Head of the Agency.

For CYs 2020 and 2019, RPCPPE was not prepared and submitted by the Inventory Committee. Likewise, the last available RPCPPE, if any, was not presented to the Audit Team, and only a narrative report with supporting documents such as printed copy of PE Subsidiary Ledgers (SLs) and summarized report of missing items was submitted for CY 2020.

b. The conduct of inventory taking was not in accordance with COA Circular No. 2020-006.

The Inventory Report disclosed the following:

- The Inventory Committee conducted the physical count of the PE located in the entire Ninoy Aquino International Airport (NAIA) complex;

- Count sheets used were based on the Memorandum Receipts (MRs) from the records of the PMD and the subsidiary ledgers (SL) of the AD;

- Verification of the existence of the PE was done through physical identification of the specific attributes of the properties, such as description, location, condition, status and date of acquisition among others. Inventory tags were used to label the items during the count;

- The results of the physical count were then summarized for the preparation of Committee's Inventory Report; and

- After the completion of the count, the Inventory Committee reconciled the account balances and analyzed property records for any discrepancy, omission, error, or timing difference that may require adjustment in the books of accounts.

2.7 The Audit Team noted that the above procedures are not in accordance with the COA Circular, and may not result in reconciled and correct balance of PE. No Physical Inventory Plan (PIP) was submitted by the Inventory Committee, which shall be approved by the Head of the Agency. A Count sheet based on MRs is not the standard/required form on the list of existing PE, and ***the preparation of the RPCPPE was not mentioned in the Inventory Report.***

2.8 Section 6.1.1 of COA Circular No. 2020-06 provides that *in the absence of the latest RPCPPE/Physical Inventory Report or if the same is determined to be undependable/unreliable, a standard form* [5]*on the list of existing PPE shall be filled up by each office and submitted to the Property Unit for verification prior to the conduct of actual inventory-taking by the Inventory Committee.*

2.9 As part of the preliminary activities prior to the conduct of inventory-taking, the Property Unit shall prepare both *1) the list of PPE items which are recorded in the PPE Ledger Cards (PPELCs) but not included in the RPCPPE, and 2) PPE items which are included in the RPCPPE but not recorded in the PPELCs*. These lists and the latest RPCPPE/Inventory Report shall be considered as inventory working papers and shall be used by the Inventory Committee as basis in preparing the PIP.

2.10 Section 6.2.3 of the mentioned Circular requires that the physical count shall be recorded/documented daily in a standard Inventory Count Form which shall be used as the basis in the preparation of the RPCPPE after the physical count.

2.11 As mentioned in MIAA's Inventory Report, *the amount per General Ledger (GL) and the physical count of Property and Equipment (PE) are reconciled*.

[5]Referring to Inventory Count Form (ICF), Annex A to COA Circular No. 2020-06.

However, considering that the Report on Physical Count of PPE (RPCPPE), showing the result of the count, was not prepared, the claim of Management may not be accurate. Consider the following comments/remarks noted on certain PE items.

Table 7 – Noted Observations on PE

Account Title	Total	Remarks
Other Land Improvements	4,315,336,810	A Land Improvement item per SL described as "Garnishment-FUCC" costing P57.332 million with a carrying value of P5.753 million does not clearly describe the Land Improvement item.
Airport Systems	25,932,249,245	Included in the List/SL is a lump sum cost described as Runways/Taxiways Beg. Balance acquired on April 30, 1994 amounting to P654.057 million.
Office Buildings	410,012,528	The Inventory of MIAA Buildings, Hangars, Facilities and Structures Report shows some items marked as "tagged-demolished" hence the continued recognition as buildings is no longer appropriate.
Office Equipment	34,783,136	Included in the List/SL are various air conditioners, the oldest was acquired as early as 1994, or 27 years ago. There was no indication that these assets were found existing and functional during the physical count since no RPCPPE, in the prescribed format, was submitted.
Airport Equipment	4,283,088,057	The list includes assets acquired as early as 1982, which may no longer be existing.
Communication Equipment	399,065,523	The list includes a) assets acquired as early as 1982, which may no longer be existing; and b) lump sum costs described as Terminal 1 (total cost), acquired in September 2000 amounting to P9.059 million and P3.604 million and Terminal 2, acquired in April 2005, amounting to P33.969 million.
Military, Police and Security Equipment	107,515,985	The Inventory Report disclosed that 20 units firearms and 73 units radio transceivers as unaccounted. The total amount may be immaterial but the representation that *GL and physical count are reconciled* is contradicted.
Motor Vehicles (MVs)	281,544,454	The Inventory of MVs as of July 1, 2020, not signed and does not show the quantity per Property Card and per physical count, was used to verify the result of the count. The MVs per Inventory as of July 2020 is 173 units, while as of December 31, 2020, there are 161 units per SL (hardcopy) and 166 per lapsing schedule, thus comparison of MVs inventory per SL and lapsing schedule, disclosed a variance of 12 and 7 units, respectively. Per hardcopy of SL supporting the inventory report, the total acquisition cost is P281.544 million while the recomputed total Acquisition cost is P275.777 million, resulting in a variance of P5.768 million. It was also noted that 6 MVs are for disposal with a total acquisition cost of P8.054 million and a total book value of P134,700.
Work/Zoo Animals	1,594,206	The existence is not confirmed, comprising of 2 K9 detector dogs acquired in December 2009. Management disclosed that the 2 K9 dogs are still alive but because of old age they are no longer being

Account Title	Total	Remarks
		used as detector dogs, thus no longer for recognition as PE.
Other PPE	138,165,336	The list includes assets acquired as early as 1990, which may no longer be existing.
Total	**35,903,355,280**	

2.12 *The unaccounted, unserviceable/condemned, and defective properties noted by the Teams under the Inventory Committee cannot be easily reconciled with the assets of the Authority since these items are summarized separately in Tabs V, W, X, and AA of the Inventory Report but not per asset group.* The details are as follows:

Table 8 – Unaccounted, Unserviceable/Condemned and Defective PE

	No. of Items	Cost	Remarks
PE with MRs of Inactive Personnel	2,404	21,360,475	Tab V of the Inventory Report
Destroyed, Defective and Unserviceable Properties	137	not presented	Tab W of the Inventory Report
Unserviceable PE Reported as Condemned	26	115,309	Tab X of the Inventory Report
Unaccounted PE	241	2,054,817	Tab AA of the Inventory Report

2.13 Likewise, review of the lapsing schedule was conducted to validate the correctness of the Depreciation Expenses, the Accumulated Depreciation and Net Carrying Amount of the PE presented in the financial statements. The review disclosed the following:

a. *Incomplete details of Lapsing Schedule*. The Lapsing Schedule shows only the acquisition cost, acquisition date and the CY 2020 depreciation. The accumulated depreciation and the net carrying amount of the items are not shown. Depreciation Expenses for listed items under the Asset Group Land Improvement, Other Machinery Equipment and Books for December 2020 were also not included.

b. *The reported balance of Depreciation Expense account per General Ledger (GL) and the PPE Lapsing 2020 do not tally, as shown below:*

Table 9 – Comparison of Depreciation Expense per GL and Lapsing Schedule

	Depreciation Expense		
Account Title	Per GL	Per Lapsing	Variance
Depreciation - Land Improvements	36,808,867	31,404,381	5,404,486
Depreciation - Infrastructure Assets	1,042,449,851	1,042,449,851	0
Depreciation - Buildings and Other Structures	5,128,271	5,128,271	0
Depreciation - Machinery and Equipment	365,908,836	341,467,250	24,441,586
Depreciation - Transportation Equipment	14,180,236	14,059,056	121,180
Depreciation - Furniture, Fixtures and Books	13,298,424	12,158,968	1,139,456
Depreciation – Leased Assets	158,452,201	158,452,201	0
Depreciation - Other Property, Plant and Equipment	5,413,907	5,383,443	30,464
	1,641,640,593	**1,610,503,421**	**31,137,172**

c. *The adjustments related to Depreciation Expense and Accumulated Depreciation accounts with a net effect of P288.588 million, and credit to Retained Earnings (RE) could not be verified.* The 2018 Lapsing schedule and other supporting documents are not yet submitted to the Audit Team despite request. Also, the adjustments made reflecting each PE item and their corresponding restated Accumulated Depreciation as of December 31, 2019 and Depreciation Expense balances for 2019 were not provided. Thus, the correctness of the adjustments made per JEV Nos. 2020-10-064, 2020-09-069, 2020-12-079 related to Depreciation Expense and Accumulated Depreciation accounts with a net effect of P288.588 million credit to Retained Earnings could not be verified.

2.14 As a result, the computed net carrying value of the PE may not be reliable considering that the PE subject to depreciation was not validated as to existence and completeness because of the non-submission of RPCPPE, and the noted observations related to the lapsing schedule.

2.15 We recommended that Management:

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 GL 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.

2.16 Management commented that the Authority has been conducting inventory count of its PE based on Memorandum Receipts for almost two decades now. To conclude in an instant that same may not be a faithful representation of portions of MIAA's assets is unjustified. While it is true that the Inventory Committee was not able to comply with COA Circular No. 2020-06 in the conduct of physical count of PE, they believe that thru the current policies and procedures, which were also based on previous COA Circulars, MIAA was still able to achieve the main objective of the inventory taking, which is to ascertain the veracity of the existence, condition and accountability of the majority of the Authority's PE.

2.17 Likewise, they are hoping that the Audit Team would be more considerate in foregoing with the requirement to submit the RPCPPE for CY 2020 and take into account what has been submitted by the Inventory Committee. The new COA Circular came too late to their knowledge and reconstructing the inventory report based on the said requirement would be such a tedious process at this point when the next inventory count is about to take place. Management also explained that the report consists more or less of 55,000 PE line items that need to be detailed into the Inventory Count Form and classified according to the 23 Account Groups being maintained per accounting records.

2.18 According to them, nonetheless, they shall endeavor to prepare the RPCPPE for Airport Machineries and Equipment as partial compliance to this requirement. Further, Management commented that henceforth expect the Authority to fully comply with COA Circular No. 2020-006 in its succeeding inventory taking.

2.19 Management also commented that Office Equipment and Airport Equipment which were acquired as early as 1982 to 1994 are still in the custody of the accountable officers and are being used in their respective offices. Likewise, the recommendation in 2020 PPE report that all personnel with condemnable property accountabilities must be turned over to clear their records of unnecessary accountabilities is now being implemented.

2.20 On the unaccounted, unserviceable/condemned and defective properties noted by the Teams under the Inventory Committee summarized separately in Tabs V, W, X and AA of the Inventory Report but not per asset group, Management commented that based on the current practice, ***the Inventory Reports are summarized based on the Employee's MR for easy identification of PPE and semi expendables items.*** They submitted details of these items per asset group.

2.21 On the adjustments related to Depreciation Expense and Accumulated Depreciation accounts with net effect of P288.588 million and credit to RE, according to them these unaccounted balances pertain to various accumulated depreciation accounts of PE since CY 2008. Due to the unavailability of prior years' records and corruption of computer files, the said amount remains unaccounted as of this date. As part of the cleansing of books of accounts, MIAA decided to reverse these balances to RE since any overstatement or understatement in depreciation expenses are closed to this account. Balances of subsidiary ledgers of PE accounts and its corresponding Accumulated Depreciation are now tallied with General ledger.

2.22 The Audit Team took note of the comments of Management. Regarding the comment of Management stating that *to conclude in an instant that same may not be a faithful representation of portions of MIAA's assets is unjustified,* we wish to emphasize that the audit was based on the evidence gathered by the Audit Team and was not an instant observation. The Audit Team did not find sufficient evidence to support the claim of Management that *they have completed the physical count of PPE, and the report on the results of the physical count was verified and reconciled with the records of both the Property Management Division (PMD) and the Accounting Division (AD)*. The best evidence to support this claim is the RPCPPE duly reconciled with accounting records which was not presented to the Audit Team.

2.23 Thus, we reiterate our observation that the PE presented in the financial statements (FS) amounting to P41.730 billion, with carrying amount of P21.635 billion may not be a faithful representation of portions of MIAA's assets.

3. The 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. As a result, the valuation of the TR at amortized cost of P2.444 billion, net of P1.293 billion allowance for impairment (AFI), could be more than its recoverable amount.

3.1 Paragraph 5.2.1 of PFRS 9 provides that *after initial recognition,* financial instruments (which include accounts receivables) shall be measured at amortized cost. Based on the Authority's previous years practice, the amortized cost is the principal amount of receivables minus any reduction (through the use of an allowance account) for impairment or expected credit losses (ECLs).

3.2 Paragraph 5.5.17 of PFRS 9 provides that *any measurement of expected credit losses under PFRS 9 shall reflect an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes as well as incorporating the time value of money. Also, the entity should consider reasonable and supportable information about past events, <u>current conditions and reasonable and supportable forecasts of future economic conditions when measuring expected credit losses</u>.*

3.3 MIAA disclosed in Note 4 to FS that *for trade receivables, the Authority has applied the simplified approach and has calculated expected credit losses (ECLs) based on the lifetime expected credit losses. The Authority has established a <u>provision matrix</u> that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.*

3.4 MIAA's TRs are presented in Note 8 to FS as follows:

Table 10 - Breakdown of Trade Receivables

Classification	2020	2019
Non-Government Entities	**3,260,152,151**	2,387,608,062
Passenger Terminal Fees (PTF)	**299,637,328**	383,360,288
Government-Owned and Controlled Corp. (GOCCs)	**146,331,981**	222,330,902
National Government Agencies (NGAs)	**30,587,142**	27,710,537
	3,736,708,602	3,021,009,789
Allowance for Impairment (AFI)	**(1,292,558,298)**	(1,257,227,459)
	2,444,150,304	1,763,782,330

3.5 Management further disclosed a reconciliation of the AFI at the beginning and end of 2020 and 2019 as shown below:

Table 11 - Reconciliation of the AFI

	2020	2019
Balance at beginning of year	**1,257,227,459**	1,318,867,027
Provision for the year	**35,330,839**	24,487,079
Write-off	**0**	(86,126,647)
	1,292,558,298	1,257,227,459

3.6 Review of Journal Entry Vouchers (JEV) disclosed that the Accounting Division (AD) recognizes an AFI, on a monthly basis, equivalent to one per cent of the total amount billed to concessionaires.

3.7 At year-end, the AFI is adjusted to comply with the accounting policy adopted by the Authority, prior to the implementation of PFRS 9, based on the established provision matrix. Below is the computed ECL/AFI based on the matrix:

Table 12 - Provision for Impairment Matrix/AFI computation

Particulars	Amount	Rate	Computed AFI
TRs-Billed			
Past Due accounts for 10 years and above	1,066,190,021	100%	1,066,190,021
Current and Past Due accounts for less than 10 years	2,263,682,763	10%	226,368,277
	3,329,872,784		**1,292,558,298**
TRs-PTF			
Past Due accounts for 10 years and above	0	0%	0
Current and Past Due accounts for less than 10 years	299,637,328	0%	0
	299,637,328		**0**
TRs-Unbilled CPF			
Past Due accounts for 10 years and above	0	0%	0
Current and Past Due accounts for less than 10 years	107,198,490	0%	0
	107,198,490		**0**
	3,736,708,602		**1,292,558,298**

3.8 Based on Table 12, of the total TRs of P3.737 billion, only P3.330 billion TRs were considered in the AFI provision. The unbilled TRs from PTFs and Concession Privilege Fees (CPFs) amounting to P299.637 million and P107.198 million, respectively, were excluded/not considered in the computation of AFI.

3.9 The Aging of Receivables as of December 31, 2020, disclosed that of the P3.737 billion receivables in Table 13, P2.893 billion are already past due:

Table 13 - Aging of Receivables

Age	Amount	% of Total	Past Due
Current	830,469,400	22.29%	0
1 – 30 Days past due	796,573,135	21.38%	796,573,135
31 – 60 Days	15,620,412	0.42%	15,620,412
61 – 90 days	13,733,218	0.37%	13,733,218
91 – 180 Days	261,017,439	7.00%	261,017,439
181 – 365 Days	97,484,896	2.62%	97,484,896
Over 365 Days	*1,711,655,216	45.93%	*1,708,129,304
Total	**3,726,553,716**	**100.00%**	**2,892,558,404**

*based on AR Profile provided by Management, with noted discrepancy of P3.526 million between the balance per Aging of Receivables and per AR Profile.

3.10 The details of over 365 days TRs totaling P1.712 billion are as follows:

Table 14 - Over 365 days Past Due

Particulars	More than 1 Year to 9 Years Past Due	10 Years Past Due	Remarks
Undisputed Past Due	104,279,404	5,024,706	Consists of past due accounts including those with pending issues between Concession Management Division and Billing Section.
Disputed With Court Case	262,269,877	181,830,670	Composed of accounts of eleven (11) concessionaires totaling P444.101 million, waiting for resolution by the Courts.
Disputed Without Court Case	310,933,042	276,463,478	Consists of thirty-nine (39) accounts which have disputes on rental rates charged by MIAA.
Non-Moving Accounts	0	602,871,166	Aged ten-year or more, non-moving, non-existing and accounts transferred from Bureau of Air Transportation (now Civil Aviation Authority of the Philippines or CAAP).
	677,482,323	**1,066,190,020**	
Unverified Credits	(32,017,127)	0	Composed of Unverified Bank Credits or Unverified Collection from concessionaires in which either the payor or the nature or details of the remittance is unknown/undetermined.
Total	**645,465,196**	**1,066,190,020**	

3.11 In our view, the Authority's provision matrix of estimating the ECL of 10 per cent for accounts that are 30 days to less than 10 years past due may not be based on the quoted provision of paragraph 5.5.17 of PFRS 9. Consider the following:

a. *The credit risk increased significantly when the contractual payments are more than 30 days past due[6].* A uniform rate of 10 per cent ECL provision for 30 days to 9 years past due accounts did not consider that the longer the period, the higher the probability of default.

   Moreover, most of the accounts are not fully backed up by security deposits. There was no document presented that an analysis of the security arrangements and guarantees to shed light on the expected total losses and the percentage of Trade Receivables (TRs) are protected. Those portions of TRs that are protected maybe considered as low risks, while those not covered by security deposits and long overdue are high risk for credit losses and thus, should be provided with higher expected credit loss (ECL).

b. *The current conditions and reasonable and supportable forecasts of future economic conditions, and its creditors' base or groupings were not considered during assessment.* The economic impact of COVID-19 pandemic exposes MIAA to higher credit risk because most of its clients are engaged in aviation or airline industries. COVID-19 pandemic is likely to have significant impacts to airline industries as travel bans causes significant decline in passengers/travelers, causing losses to some airlines and consequently defaults in payment of their obligations.

   In CY 2020, there is a significant increase in outstanding or unpaid TRs from non-government entities (receivables from airline companies and various concessionaires/lessees) of P872.544 million compared to CY 2019.

c. *Of the P1.712 billion TRs with age over 365 days in Table 13, only P1.066 billion was provided with 100 per cent allowance for impairment (AFI), despite the high probability of uncollectability of the remaining P677.482 million in Table 14.*

3.12 As a result of improper/non-assessment of collectability of receivables, Management's assertion that the valuation of its receivables at P2.444 billion (at amortized cost), complies with Philippine Financial Reporting Standard (PFRS) 9, could not be relied upon. Thus, the amortized cost of TRs amounting to P2.444 billion maybe more than its recoverable amount.

3.13 We recommended that Management:

a. Revisit its established 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

[6]From paragraph 5.5.11 of PFRS 9

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 CMD and pursue collection of the accounts when decided as valid receivables.**

3.14 Management commented that the upsurge of P891 million in billed TRs from P2.438 billion in 2019 to P3.329 billion in 2020, as shown below, is largely due to the relief granted by the MIAA Board of Directors to airport stakeholders to cushion the adverse financial impact of the pandemic.

Table 15 – Upsurge of Billed TRs (in million)

	2020	2019	Increase (Decrease)
Billed TRs	1,477.527	757.470	720.057
Current and Undisputed Accounts	1,852.346	1,680.981	171.365
Sub-total	3,329.873	2,438.451	891.422
Unbilled TRs			
PTFs	321.625	383.360	(61.735)
CPFs	75.056	172.661	(97.605)
Sub-total	396.681	556.021	(159.340)
Total	**3,726.554**	**2,994.472**	**732.082**

3.15 One of this relief is the deferment of collection of March to October 2020 aeronautical fees billed to Local Air Carriers (ACs) for a period of one year. This amounted to P370.611 million and comprised 42 per cent of the total TRs billed during the year. Payments for these deferred charges started pouring in only this March 2021.

3.16 Second is the waiving of interest charges for late settlement of accounts that fell due during the pandemic. As a result, ACs/Concessionaires took advantage of this reprieve and withheld the payment of their outstanding accounts. Total withheld payments amounted to P349.446 million and accounted for 39 per cent of the total billed TRs.

3.17 The remaining P171.365 million or 19 per cent of the billed TRs would answer for the disputed accounts with and without court cases including those with pending issues on rate/area adjustments.

3.18 It is evident from the foregoing that the increase of P720.057 million or 81 per cent of the billed TRs is the consequence of the MIAA Board's action to provide assistance to airport stakeholders during these unprecedented times.

3.19 Management commented that since the Authority has computed the AFI or ECL based on historical data under normal conditions, they shall revisit their existing provision given the material impact of the pandemic.

3.20 With regard to Receivables - PTFs, Management explained that the same were excluded in the computation of AFI mainly because of the high probability of collecting these accounts. These are monies held in trust by ACs for the account of the Authority and default in payment is primarily due to the availment of the reprieve on interest charges.

3.21 On the non-provision of AFI on certain TRs like PTFs, the Audit Team believes that the provision of AFI is still necessary on the ground that any business that has credit transaction is exposed to credit risk.

4. Recognition of lease payments from lessees/concessionaires is not on a straight-line basis over the lease term. In addition, modification to operating lease, caused by the waiver of rental charges for 15 months to concessionaires in all Ninoy Aquino International Airport (NAIA) Terminals, was not accounted as a new lease contrary to Philippine Financial Reporting Standard (PFRS) 16 resulting in the understatement of Rent/Lease Income and related receivable accounts by at least P55.050 million.

4.1 PFRS 16 paragraph 81 provides that: *A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis.*

4.2 Lease modification as defined under PFRS 16, Annex A, is *a change in the scope of a lease, or the consideration for a lease that was not part of the original terms and conditions of the lease xxx.*

4.3 Likewise, PFRS 16 paragraph 87 states that: *A lessor shall account for a modification to an operating lease as <u>a new lease from the effective date of the modification</u>, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.*

4.4 In Note 4 to the financial statements, Management disclosed its accounting policy on recognition of income classified as operating lease as: *Lease income from operating leases is recognized as income in the statement of comprehensive income on a <u>straight-line basis over the lease term</u>.*

4.5 As of December 31, 2020, MIAA reported the Rent/Lease Income totaling P1.610 billion, as follows:

Table 16 - Breakdown of Rent/Lease Income

Particular	Amount	Percentage
Rent	982,105,370	60.98%
Concession Privilege Fees	614,778,243	38.17%
Accreditation Fees	10,354,000	0.65%
Others	3,261,195	0.20%
Total	**1,610,498,808**	**100.00%**

4.6 Our audit of Rent/Lease Income totaling P982.105 million per Table 16 revealed the following:

a. *Recognition of lease payments is not on a straight-line basis over the lease term.*

The Accounting Division (AD) recognized rent/lease income based on the billing to concessionaires which is equal to the total amount of rent for the month, without considering the future escalation clause on rental rates as agreed in the contract of lease. Thus, the recognition of rental income was not on a straight-line basis over the lease term.

b. *Rental Income due from Concessionaires covered by the Board Resolutions (BRs) waiving the rental charge was not recognized in the books of accounts.*

b.1 MIAA Board of Directors approved the waiver of rental charges to concessionaires within NAIA terminals beginning March 15, 2020 until May 15, 2020 through BR No. 2020-014. It was subsequently extended three times by issuing a series of BRs with the latest extension until June 30, 2021.

b.2 Despite the waiver, the AD continuously issues monthly billing to concessionaires for rent because the current billing system cannot segregate which charges are covered by the BRs and which are not. Consequently, the AD still accrues Rent/Lease income on a monthly basis, then later reverses the entry to derecognize the Rental Income from concessionaires affected by implementation of the BRs.

b.3 Based on the data of the Concession Management Division (CMD) and other accounting records, there are lessees/concessionaires, covered by the waiver of rental charges, with lease term expiration beyond June 30, 2021. However, no rent/lease income, including escalation, related to these contracts was recognized after the issuance of the BRs.

b.4 In our view, the waiver of rental charges qualifies to the criteria of **lease modification** defined under PFRS 16 which constitutes as *a change in consideration for a lease that was not part of the original terms and conditions of the lease*. The rental holiday to lessees/concessionaires from March 15, 2020 to June 30, 2021 is a change in consideration which is not included in the original term and conditions of the lease, therefore, PFRS 16 paragraph 87 shall apply. On the effective date of the modification, on March 15, 2020, the total revised consideration for the remaining lease should be recognized on a straight-line basis over the remaining lease term, while also considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease effective March 15, 2020.

b.5 Based on the sample population of 69 concessionaires in NAIA Terminal 3 with lease term expiration beyond June 30, 2021, it was noted that at least P55.050 million Rent/Lease Income was not recognized resulting in the understatement of the Rent/Lease Income and the related receivable accounts account by at least the same amount.

4.7 We recommended that Management 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.

4.8 Management commented that they will comply with PFRS 16, and have initially computed Rent/Lease Income to be taken up in their books for the lease modification covered by BRs waiving the rental charges of Terminal concessionaires for the period of March 15, 2020 to June 30, 2021.

4.9 The Audit Team will monitor MIAA's compliance with the recommendation.

5. Not all Point of Sales (POS) application system of concessionaires' data integrated with Tenant Sales Monitoring System (TSMS) of MIAA is working effectively, as a result the reported Concession Privilege Fees (CPFs) income amounting to P176.854 million is not faithfully represented[7].

5.1 In CY 2019 audit, it was reported that *the non-monitoring of compliance with the* concession *contracts and MIAA Administrative Order No. 1 s. 2000 by the* 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 CPF resulted in non-payment/under-payment by some concessionaires, and ultimately in the underpayment of CPF.*

5.2 MIAA required its concessionaires with GS-based CPFs to set-up/install POS application as stipulated in the Concession Contracts[8]. The application is a wireless connection which allows the capture/transfer of concessionaires' daily sales to the TSMS of MIAA handled by the Management Information System Division (MISD). With the POS application, the CPFs due from concessionaires can be computed.

5.3 Based on the testing of sampled transactions in CY 2019 audit, it was noted, among others, that only 25 per cent of the concessionaires have not complied with the POS requirement. Likewise, most of the concessionaires with POS installation have incomplete or missing sales data (no POS sales entry for number of days).

5.4 While Management required the installation of POS, there are no guidelines/policies issued related to this. Thus, the use of the TSMS was not maximized. A monthly sales summary report of concessionaires could have been generated from the TSMS and used as basis of the Accounting Division in recording and monitoring the CPF receivables and in preparing the CPF bills.

[7]For financial information to be useful, it must be both relevant and provide a faithful representation of what it purports to represent. A faithful representation is, to the maximum extent possible, complete, neutral and free from error.

[8]Section 3.03 of the Contract of Lease for retails, services and food and beverage

5.5 Due to the absence/non-availability of monthly sales summary report, the CPF receivables are left unmonitored by the AD, thus delinquent concessionaires or those with unpaid GS-based CPF are not immediately identified/discovered.

5.6 In CY 2020 audit, of the P614.778 million component of Rent/Lease Income in Table 16, P425.650 million represents GS-based CPFs, as follows:

Table 17 - GS-based component of CPFs

Concession Privilege	Actual	Estimate /Accrual	Total
Retail, services and food and beverages	163,657,063	13,196,571	176,853,634
Others	234,521,046	14,275,041	248,796,087
Total	**398,178,109**	**27,471,612**	**425,649,721**

5.7 To test the completeness and accuracy of reported GS-based CPFs, in Table 17, the Audit Team selected 18 concessionaires as samples[9]. The results are as follows:

a. Of the 18 concessionaires, there are five concessionaires with months indicated as *"Store Closed*" status in the Summary of POS Report, however the AD and the Collection Division recognized collections from these concessionaires on the same months.

b. Of the 18 samples, there were only eight instances where the status of POS report is *"CSD", or "Complete Sales Data*". Shown in the table below are the concessionaires, and the comparative data on CPF per POS/TSMS vis-à-vis the amount remitted:

Table 18 – Concessionaires with Complete Sales Data

	Sample Concessionaires	Month with CSD status	CPF due based on the POS/TSMS (with VAT)	Amount Remitted (CPF with VAT)
1	Sample 1-Cofeee and Tea Seller	January	107,496	96,624
2	Sample 2-Cofeee and Tea Seller	February	71,204	0
3	Sample 3-Japanese Ramen House	February	339,146	0
4	Sample 4-Fast Food Restaurant	February	116,796	0
5	Sample 5-Fast Food Restaurant	January	126,975	0
6	Sample 6-Fast Food Restaurant	February	84,612	0
7	Sample 7-Fast Food Restaurant	February	217,432	217,367
8	Sample 8-Fast Food Restaurant	March	240,003	124,220

Concessionaires with complete sales data, per Table 18, were tested for accuracy of CPFs collected. The test result showed that the amounts remitted by concessionaires per their sworn statements did not tally with the POS report/TSMS, and *no CPF income was recognized for the unpaid CPFs despite the fact that there was available data from the POS/TSMS that can be used in computing the CPFs due from concessionaires*.

[9]Samples selected are those concessionaires with remittances of more than P1 million during the year.

5.8 The lack of the effectively functioning POS/TSMS resulted in:

a. *Lack of accurate basis for recording/accruing GS-Based CPFs by AD*. As at year-end, GS-Based CPFs due from 10 of the 18 sample concessionaires, amounting to P3.954 million was based on estimates. The amount forms part of the GS-based CPFs estimate/accrual in Table 18.

   Based on AD report, March 2020 (the start of the community quarantine due to COVID-19) has the highest accrual based on estimate during the year. Such accrual/estimate might be overstated due to limited operations by most concessionaires.

b. No alternative way to validate the declared CPFs under the Sworn Statements submitted by 15 concessionaires amounting to P53.601 million other than the conduct of spot audit and examination of all pertinent documents.

c. Operating and non-operating concessionaires during quarantine restrictions especially those businesses affected by COVID-19 pandemic cannot be easily identified.

5.9 The Authority issued Memorandum Circular (MC) No. 06 dated March 4, 2021 which is the Guidelines on Concessionaires Sales Monitoring System. However, the MC application is to be implemented prospectively, 30 days after its approval, thus, it has no effect on the observations above.

5.10 Based on the sampling conducted, the control design requiring the installation of POS application system and integration of the sales data to TSMS is not working effectively. Likewise, the alternative control of requiring the execution of a sworn statement on the total sales might not also be effective, without inspection of the books of concessionaires by the MIAA. Thus, the P176.854 million CPF component of rental is considered not faithfully represented as discussed earlier.

5.11 We recommended that Management:

a. Ensure that the Point of Sale (POS) and Tenant Sales Monitoring System (TSMS) are working effectively, so that the monthly sales summary report of concessionaires subject to payment of 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.

5.12 Management commented that the accuracy and completeness of the sales data generated by TSMS including the efficient collection of these receivables will be addressed once the system is fully interfaced with the computerization project.

5.13 The Audit Team will monitor MIAA's compliance with the recommendations.

6. The Unearned Revenue/Income account amounting to P135.278 million includes a lump-sum amount of P33.215 million without details, and advance rental payments by concessionaires/lessees who are no longer doing business with MIAA, casting doubt on the accuracy and validity thereof.

6.1 As of December 31, 2020, MIAA reported the Unearned Revenue/Income account amounting to P135.278 million, summarized as follows:

Table 19 – Composition of Unearned Revenue

Composition	Amount	% of Total
Beginning Balance, January 1, 2005	33,214,774	24.55%
With List of Concessionaires	99,969,496	73.90%
Duty Free Balance of Overpayment	2,093,854	1.55%
Total	135,278,124	**100.00%**

6.2 The schedule of Unearned Revenue/Income includes a beginning balance of P33.215 million without details, such as the name of concessionaires/lessees, Official Receipt (OR) number and OR date. Thus, this could not be verified to determine its existence or validity. Moreover, the P99.969 million with identified concessionaires includes deposits amounting to P7.405 million of concessionaires who are no longer doing business with MIAA.

6.3 The lack of details to support the P33.215 million Unearned Revenue/Income casts doubt on its validity. Furthermore, considering the expiration of the contracts of some concessionaires, MIAA may have already provided the services to concessionaires through the use of the leased premises, thus adjustment may be necessary to derecognize the Unearned Revenue/Income amounting to P7.405 million.

6.4 The continued recognition of the Unearned Revenue/Income totaling P40.62 million may overstate the liabilities and understate the income/retained earnings presented in the financial statements.

6.5 We recommended that Management 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.

6.6 Management commented that for the reconciling items (including prior years balances), the Authority has already sent confirmation letters to 278 or 83 per cent active concessionaires in 2020 while the remaining 17 per cent will be sent on or before June 30, 2021. However, seeking the cooperation of the concessionaires in this endeavor at this time of pandemic has been an arduous task for the Authority. To date, only 93 or 33 per cent of active concessionaires have responded to the confirmation letters. Nevertheless, Management will reiterate the request to these non-complying concessionaires after they have fully served the remaining 17 per cent of the confirmation letters.

6.7 The Audit Team will monitor the action taken by the Management to ultimately recognize only those valid unearned income as liabilities.

7. **Payment of real property taxes (RPT) by the 10[10] out of 158 lessees amounting to P1.455 million on behalf of MIAA was not recognized by the latter as part of its operating expenses and lease income resulting in understatement of these accounts by the same amount.**

7.1 MIAA entered into various agreements involving lease of its properties which requires the payment by the lessees of the RPT corresponding to the leased premises for the duration of the contract.

7.2 Records show that payments of RPT by the lessees were not monitored. Upon inquiry, the Business and Real Estate Investment Development Division (BREIDD) mentioned that property tax receipt is required upon renewal of contract with lessees.

7.3 In our view, this control design is not sufficient to ensure that the RPT payment for the entire area leased as required in the agreement is fulfilled by the lessees, and that the MIAA's obligation to pay RPT on the leased premises is extinguished considering that not all lessees renew their respective contracts. The Tax Declaration serves as the basis for RPT payments, however, some tax declaration were not presented to the Audit Team to facilitate the matching of the area per lease agreement, per tax declaration and per OR.

7.4 RPT payments by 10 lessees out of 158 lessees at the General Aviation Area and other areas were gathered from BREIDD. Based on the list, at least P1.455 million RPT were paid by the 10 lessees for the account of MIAA which were not recorded in the books of accounts of the Authority. It was also noted that in some cases, RPT payments do not cover both land and building or hangar, whereas the area leased covers land and building. A complete list of lessees with their corresponding RPT payments is yet to be prepared by the BREIDD.

7.5 The Accounting Division disclosed that the RPT is neither being paid by the MIAA, nor were they given a list of RPT payments made by the lessees for the account of MIAA, hence the RPT payments are not recognized in the books of accounts.

7.6 In a Supreme Court (SC) decision, the SC declared that the Airport Lands and Buildings of MIAA are exempt from RPT, except for the portions that MIAA has leased to private parties[11].

7.7 The Conceptual Framework for Financial Reporting provides that *income is recognized when it is probable that an increase in future economic benefit related to an increase in an asset or decrease in a liability has arisen and that the increase in economic benefits can be measured reliably*.

[10] Based on available data.
[11] G.R. No. 155650, MIAA vs. Court of Tax Appeals, City of Parañaque

7.8 On the case at hand, no apparent increase in asset can be recognized but there was a decrease in liability when the lessee paid the tax liability of the lessor, or the MIAA, thus needing recognition of income.

7.9 The non-recognition of the expense and income pertaining to the RPT paid by the lessees on behalf of MIAA resulted in the understatement of Taxes, Duties, and Licenses, and Rent/Lease Income accounts.

7.10 We recommended that Management:

a. Regularly monitor compliance of lessees with the terms and conditions of the contracts, specifically the payments of RPT on leased properties, among others;

b. Account the:

1. RPTs due from lessees, corresponding to the RPT assessment by the concerned Local Government Unit (LGU), based on the area leased;

2. Payments of RPT by lessees for the account of MIAA; and

3. RPTs for collection from lessees, if any.

c. Require the settlement of unpaid RPTs due from lessees; and

d. Recognize the RPT and the related payment thereof by the lessees as Taxes, Duties and Licenses and Rent/Lease Income, and the unpaid RPT as Receivables and Rent/Lease Income.

7.11 As initial step to address the observation, the Concessions Department is coordinating with the City Assessor of Pasay to provide the MIAA with the list of all MIAA concessionaires who are updated in paying the RPT including copies of the Tax Declaration. Likewise, they have required their concessionaires to submit the latest RPT receipts and Bureau of Internal Revenue (BIR) Tax Identification Numbers.

7.12 In addition, during the exit conference held on June 28, 2021, Management commented that they will require their Concessionaires to present proof of payment of RPT prior to issuance of a clearance from MIAA.

7.13 The Audit Team will monitor MIAA's compliance with the recommendations.

8. Trade Receivables (TRs) totaling P3.727 billion include dormant accounts amounting to P602.871 million which are for write-off subject to approval of the Commission on Audit (COA) pursuant to COA Circular No. 2016-005.

8.1 The Authority has non-moving receivable accounts totaling P602.871 million consisting of more than 900 accounts which have been inactive or dormant for more than 10 years. These accounts have very low to zero chance of collectability, thus provided with a 100 per cent allowance for uncollectability. Inquiry with AD disclosed that the Authority has yet to request for write-off from the Commission on Audit.

8.2 It is our view that the continued keeping of these accounts has no benefit to the Authority, and adds to the volume of transactions being maintained/accounted by AD.

8.3 We recommended that Management take appropriate action to collect dormant receivables and if this proved to be futile, gather documents and evidence required under COA Circular No. 2016-005 to be able to pursue the filing of request for write-off of dormant TRs.

8.4 Management commented that they really plan to drop the balances of these inactive or non-moving accounts from their books of accounts. However, compliance with the conditions and requirements provided under COA Circular No. 2016-05 prior to write-off of dormant accounts is not easy. The lack of relevant documents that will support their request for write-off is hindering their efforts to do the same.

8.5 Some of these uncollectible accounts were acquired prior to 1984 when MIAA was just a division under the Bureau of Air Transportation (BAT). With the issuance of Executive Order No. 778, creating the MIAA, all the existing assets including the uncollectible accounts of BAT from various concessionaires were transferred to MIAA. The said transfer was made without supporting documents that would validate the existence of these dormant accounts.

8.6 Since collectability of these dormant receivables is no longer feasible, Management shall work instead on the procedural requirements for the write-off of these receivables starting with account balances not exceeding P100,000 to partially comply with the audit recommendation.

8.7 The Audit Team will monitor MIAA's compliance with the recommendation.

9. Trade Receivables (TRs) amounting to P26.158 million were derecognized based on unidentified/unverified bank credits, as a result, the correctness and propriety of this transaction is not verified.

9.1 All unverified items in the monthly bank reconciliation statements are temporarily accounted as Unverified Credits.

9.2 Pending identification of the payors or the nature/details of the remittance, the unverified amounts were recorded as deductions from total TRs. Of the total unverified bank credits of P76.616 million which was recognized as TRs settlements, Management was able to verify P50.459 million or 66 per cent of the P76.616 million as valid TRs payments, thus only P26.158 million remained unverified as shown in the next page:

Table 20 – Balance of Unverified TRs

Year	Unverified TRs	Verified TRs	Balance
2020	44,599,140	34,162,005	10,437,135
2019	5,962,777	4,689,107	1,273,670
2018	6,047,349	3,395,319	2,652,030
2017	16,125,120	8,212,125	7,912,995
2016	3,881,881	0	3,881,881
Total	76,616,267	50,458,556	26,157,711
%	100%	66%	34%

9.3 For the remaining unidentified/unverifed bank credits, Management explained that they sought the assistance of Landbank, the depository bank in all these transactions, in identifying the involved concessionaires/payors including the nature of payments to facilitate the proper derecognition of receivables.

9.4 We recommended that Management discontinue the practice of derecognizing TRs based on unidentified/unverified bank credits and instead recognize the latter as Undistributed Collections account and gather data about the payors.

9.5 The posting to the individual Subsidiary Ledgers (SLs) of the P50.458 million derecognized TRs is still on-going based on the validation conducted by the Audit Team. The Audit Team will also monitor MIAA's compliance with the recommendation on the derecognition of remaining P26.158 million TRs.

10. The Authority's liabilities, more particularly the Due to Bureau of Internal Revenue (BIR) account of P104.773 million, net of debit or overpayment of P124.649 million, may not be a faithful representation of the claims of the BIR against the MIAA, because of the noted variance between the balances of the account per books, and the related returns filed with the BIR for the period or month ending December 31, 2020 totaling P66.531 million.

10.1 Financial reports provide information about the reporting entities economic resources, and *claims against the reporting entity,* among others.

10.2 The financial information to be useful must be relevant and faithfully represent what it purports to represent. Faithful representation is achieved by presenting the transactions and events in the way they are reasonably expected to be reported in the financial statements.

10.3 Pursuant to the Updated Revised Chart of Accounts (RCA) for Government Corporations, *Due to BIR account* is described as:

> *This account is credited to recognize taxes withheld from officers and employees and other entities other than Value-Added Tax Payable and Income Tax Payable. This account is debited upon remittance of taxes withheld to the BIR, and/or adjustments.*

10.4 In Note 15 to financial statements (FS) on Inter-agency Payables, it was disclosed that *Due to BIR represents taxes withheld on salaries, goods and services.*

10.5 As of December 31, 2020, the Due to BIR account showed a net credit balance of P104.773 million as shown below:

Table 21 – Composition of Due to BIR

Composition/SL account	Balance Dr(Cr)	Remarks
a) Withholding tax on GMP (Form 1600)	(161,567,548)	
b) Expanded withholding tax (Form 1601E)	(67,854,151)	
Payable	(229,421,699)	
c) Withholding tax on compensation (Form 1601C)	108,999,708	*Overpayment*
d) Final withholding tax (Form 1601F)	15,649,278	*Overpayment*
Overpayments	124,648,986	
Net amount of overpayment	**(104,772,713)**	

10.6 The balance of the SL accounts in Table 21 is supposed to be equivalent to the unremitted amounts of taxes withheld/taxes for remittance as of December 31, 2020, which are due in January 2021, and/or items for adjustment, if any, as of December 31, 2020. If there are no items for adjustments, the balance of the Due to BIR per books of accounts as of December 31, 2020 should tally, or can be reconciled, with the amount appearing in the specific BIR Forms/Returns filed with the BIR for taxes in Table 22.

10.7 Testing of subsequent events was performed to determine whether the balance of Due to BIR account as of December 31, 2020 is equal to the amount of taxes withheld or due for remittance per relevant BIR forms filed with the BIR in January 2021.

10.8 Presented below is the result of the matching analysis and other related observations:

a. Withholding tax on Government Money Payments (GMP) (Form 1600) – P161.567 million credit balance

MIAA used BIR Form No. 1600, *Monthly Remittance Return of VAT and other Percentage Taxes Withheld*, when remitting the withholding tax on GMP.

The BIR Form No. 1600 filed for the period ending December 31, 2020 showed that the tax withheld and to be remitted totaled P20.350 million, while the SL balance is P161.567 million resulting in a variance of P141.218 million between the amount per BIR Form 1600 and per books of MIAA.

b. Expanded withholding tax (Form 1601E) – P67.854 million credit balance

Based on the *Quarterly Remittance Return of Creditable Income Taxes Withheld (Expanded), BIR Form No.* 1601-EQ, for 4th quarter of Year 2020, the Tax still due amounted to P8.549 million, (net of payment made for the months of October and November 2020) while the SL account balance is P67.854 million, thus a variance of P59.305 million between the SL account balance and per Tax Return was noted.

c. *Withholding tax on compensation (Form1601C) – P109 million debit balance*

The *Monthly Remittance Return of Income Taxes Withheld on Compensation, BIR Form No.* 1601-C, for December 2020, showed a Tax withheld of P8.384 million, while the SL account balance is *P109 million debit balance*, resulting in a variance of P117.384 million between the SL account balance and per Tax Return.

Per BIR regulation, o*n or before the calendar year and prior to the payment of the compensation for last payroll period, the employer shall determine the sum of the taxable regular and supplementary compensation paid to each employee for the whole year and must ensure that the tax due is equal to tax withheld.* Hence, balance of this SL account should be equal to the taxes withheld in December 2020, and for remittance in January 2021.

d. *Final withholding tax (Form 1601F) - P15.649 million debit balance*

The *Monthly Remittance Return of Final Income Taxes Withheld* (BIR Form No. 1601-FQ), as amended, for the month of December 2020 showed a Tax due for remittance of P0.958 million, while the SL account balance is *P15.649 million debit balance*, thus a variance of P16.607 million between the SL account balance and per Tax Return was noted.

10.9 To summarize, a net variance of *P66.531 million* between the balance of Due to BIR per MIAA books and the Tax Returns filed with the BIR was noted:

Table 22 – Taxes Due Per SL and Per Tax Return

Tax Type	Per SL	Per Tax Return	Variance
Withholding tax on Government Money Payment (GMP) (Form 1600)	(161,567,548)	(20,349,952)	(141,217,596)
Expanded withholding tax (Form 1601E)	(67,854,151)	(8,549,143)	(59,305,008)
Withholding tax on compensation (Form 1601C)	108,999,708	(8,384,181)	117,383,889
Final withholding tax (Form 1601F)	15,649,278	(958,184)	16,607,462
Balance	**104,772,713**	**(38,241,460)**	**(66,531,253)**

10.10 Because of the noted variance totaling P66.531 million per Table 22, the P104.773 million debit balance of Due to BIR account is not faithfully represented.

10.11 We recommended that Management clarify and/or reconcile the noted variance between the balances per SLs of Due to BIR account and balance reported in the tax returns, and effect the necessary adjustments.

10.12 Management commented that with regard to the discrepancies noted between the balances per SLs and tax returns filed with the BIR, they will continue to review the classification of different tax type posted in the SLs as this is one of the reasons for the unreconciled balances aside from the timing differences between the recording and remitting of the tax due to the BIR.

10.13 The Audit Team will monitor the action taken by the Management on the recommendation.

11. The Customer's Deposits Payable account amounting to P354.246 million as of December 31, 2020 includes deposits made by concessionaires/lessees, as early as 1985, which are no longer doing business with MIAA, casting doubts on the accuracy and validity thereof.

11.1 In Note 19 to financial statements (FS) on Other Liabilities, it was disclosed that *Customer's Deposit Payable* amounting to P354.246 million represents the airport lessees' and/or concessionaires' deposits equivalent to two months or as stated in the contract/temporary permit.

11.2 Summarized below are the details of the account:

Table 23 – Composition of Customer's Deposits Payable

Composition	Amount	% of Total
Active Concessionaires	308,503,915	87.09%
With Billing Statement (No Outstanding Balance per Aging of Receivables)	5,667,139	1.60%
Non-Active Concessionaires	36,567,124	10.32%
Balance for Reconciliation	3,508,081	0.99%
Total	354,246,259	100.00%

11.3 Our audit disclosed that the account includes deposits made by concessionaires as early as 1985. Of the P354.246 million, P36.567 million, or 10.32 per cent, are from 565 concessionaires who are no longer doing business with MIAA.

11.4 On the other hand, the balance for reconciliation amounting to P3.508 million, pertains mainly to the customers' deposit billed to concessionaires who were allowed to start or operate their business in MIAA, even without the required deposit, covering CYs 1985-2002. Inquiry with the Accounting Division disclosed that they have difficulty in identifying or determining the validity of these liabilities because of lack of supporting documents, such as the records of settlement of the amount billed to concessionaires.

11.5 The deposit is intended to guarantee prompt payment of the rentals/concessions privilege fees, and to answer for any of the concessionaires' obligations under the concession agreement. This shall be returned to the concessionaire, without interest, only after the expiration of the contract without extension or renewal, and after the concessionaire shall have completely and satisfactorily vacated and delivered the Leased Premises less whatever amounts the concessionaire may owe MIAA.

11.6 Considering the expiration of the contracts of the 565 concessionaires; possible non-existing/unsettled costumers' deposit billing, and/or that MIAA should have returned these deposits, after recovering its claim for damages from those concessionaires/lessees, if any, these liabilities may have already been settled in the past, and may no longer constitute valid liability of the Authority. If no longer a valid liability, the continued recognition thereof may overstate the liabilities presented in the financial statements.

11.7 We recommended that Management review the transactions pertaining to the account to ensure that only those existing and valid Customer's Deposits Payable are presented in the financial statements as of December 31, 2020, and prepare the necessary adjusting entries.

11.8 Management commented that the Authority has already sent confirmation letters to 278 or 83 per cent active concessionaires in 2020 while the remaining 17 per cent will be sent on or before the end of this semester. However, seeking the cooperation of the concessionaires in this endeavor at this time of pandemic has been an arduous task for the Authority. To date, only 93 or 33 per cent of active concessionaires have responded to the confirmation letters.

11.9 For the billed deposits, effective January 1, 2019, payables were recognized in the books of accounts upon receipt of actual payments. All entries made to record the billed advance and deposits were reversed monthly and separate schedules were maintained for monitoring of accounts.

11.10 For the unclaimed deposits of non-active concessionaires, there is an ongoing reconciliation of advances and deposits accounts between the Finance Team and Concessions Management Department with regard to the amount posted by the concessionaires vis-à-vis the required advance and deposits per Contract of Lease Agreement.

11.11 The Audit Team will monitor MIAA's compliance with the recommendation.

12. Withholding of taxes on purchases of goods and services were recognized upon payment to suppliers/contractors/service providers contrary to Revenue Memorandum Circular (RMC) No. 10-2018, which states that the obligation to withhold taxes arises when an expense or asset is already recorded whether or not the same has been paid, resulting in the overstatement of Accounts Payable and understatement of Due to BIR by undetermined amount.

12.1 RMC No. 10-2018, dated January 31, 2018, was issued by the BIR to clarify the time of withholding and remittance of taxes withheld by the withholding agents, which includes GOCCs like MIAA, which reads as follows:

> *Accordingly and pursuant to the power of the Commissioner of the Internal Revenue to interpret tax laws and decide tax cases*

provided under Section 4 of the 1997 National Internal Revenue, as amended, it is hereby clarified that the obligation to withhold arises at the time an income payment is paid or payable or the income payment is accrued or recorded as expense or asset, whichever is applicable, in the payor's books, ***whichever comes first.*** *Stated otherwise, the obligation to withhold already arises when an expense or asset is already recorded whether or not the same has been paid pursuant to RR No. 12-2001.*

In the case of government projects, the obligation to withhold arises at the time that the government agency books construction of PPE as Construction in Progress with the appropriate asset classification since what RR No. 12-2001 mandates is "whichever comes first".

12.2 Our analysis of Accounts Payable as of December 31, 2020 disclosed the following:

a. Assets or expenses and payables to suppliers/contractors/service providers were recognized in the books of accounts based on the amount billed or invoice, withholding taxes are not yet recognized when payment is not made.

b. Withholding of taxes are documented upon the preparation of Disbursement Vouchers (DVs) and are/will be recognized in the books upon recording of payment to suppliers/contractors/service providers; and

c. As of December 31, 2020, the balance of Accounts Payable is P1.039 billion, portion of which is Due to BIR, pertaining to the withholding taxes remittable to BIR.

12.3 Consequently, the late recognition of withholding of taxes or non-compliance with RMC No. 10-2018 resulted in the overstatement of Accounts Payable and understatement of Due to BIR corresponding to withholding taxes from those unpaid deliveries of goods and services, which may expose the Authority to the risk of possible assessment of fines and penalties by the BIR for non-compliance with the mentioned revenue regulations.

12.4 We recommended that henceforth, Management strictly comply with RMC No. 10-2018 and Revenue Regulations (RR) No. 12-2001, and effect the necessary adjustments in the books of accounts to recognize the withholding taxes portion of Accounts Payable.

12.5 Management explained that since the deadline of remittance of withholding taxes for the year 2020 is over, they will implement the recommendation starting January 2021. The withholding taxes will be recognized upon the recording of the asset or expense whichever comes first, to comply with BIR RMC No. 10-2018 and RR No. 12-2001.

12.6 The Audit Team will monitor MIAA's compliance with the recommendation.

13. The Inventory and Inspection Report of Unserviceable Property (IIRUP) was not properly filled up casting doubt whether the derecognized PE costing P19.744 million, with carrying amount of P4.731 million, from the books are the same items actually disposed and sold.

13.1 The IIRUP is a report prepared by the Supply and/or Property Unit which is used as a basis to record dropping from the books of accounts the unserviceable PE of the Authority.

13.2 Related to the disposal of unserviceable waste materials and properties under Disposal Reference No. 2020-A-001 to 002, the Accounting Division derecognized PE costing P19.744 million with accumulated depreciation of P15.013 million under JEV No. 2020-09-073 dated September 30, 2020.

13.3 The audit revealed that the *dropping/derecognition of the PE which were supposed to be disposed is not based on the properly accomplished IIRUP,* but on the List prepared and verified by the Accounting Division based on the documents given by the Property Management Division.

13.4 The IIRUP is the form designed by COA to serve as basis to record dropping from the books unserviceable properties carried in the PE accounts. The IIRUP shall be submitted to the Accounting Division after the disposal is completed, which should be accomplished according to the instructions of the said form. Notably, no impairment loss was recognized in the disposal transaction, and a loss from disposal of assets of P4.285 million was recognized.

13.5 It is our view that the use of the IIRUP form is a control design to ensure that incompatible duties are segregated, as discussed below:

a. *Property Officer* prepares the report and signs as requesting officer for inspection and disposition of the properly enumerated/listed in the form, subject to approval of the authorized official;

b. *Inspection Officer* certifies that he/she inspected every article enumerated in the report, and that the disposition made is in her/his judgement the *best for public interest* and signs the report, together with a witness to the disposition of the articles enumerated in the report. In cases where technical knowledge is needed for the determination of the true condition or result of actual current value of the property to be inspected, a Technical Inspector with the required knowledge and training shall inspect the same; and

c. *Accounting Division* shall use the IIRUP to record the dropping from the books of unserviceable properties.

13.6 In the disposal made, the IIRUP was not properly filled up. The items in the IIRUP are described as “1 lot”, thus, PE items cannot be clearly identified by Property No., Cost, accumulated depreciation/impairment losses and carrying amount. This may have prompted the Accounting Division to prepare the List of the Items disposed to have a basis for their entry in the books; however, this breaches the control design. The List of PE derecognized was not signed by the Property Officer, and no certification on the inspection conducted and that the disposition made is to the best for public interest.

13.7 Because of the breach of control in the recording of the disposal, the derecognition of PE costing P19.744 million, with carrying amount of P4.731 million, does not appear to be reliable. The payment under OR No. 1525788 dated March 10, 2020 amounting to P445,999 is for all the items disposed, and not only PE, thus it will appear that the loss may be higher than P4.285 million.

13.8 We recommended that Management require the Accounting Division to record the derecognition of disposed PE based on properly accomplished IIRUP.

13.9 The Audit Team noted that the issuance of the policy guidelines mentioned in their comments in paragraph 17.8 will address the issues raised on the use of IIRUP.

B. OTHER OBSERVATIONS

14. The provision to remit only the Passenger Service Charge (PSC) on flown and expired tickets pursuant to Sections 6.2, and 6.3 of the Memorandum Circular (MC) No. 18, series of 2019, dated August 9, 2019, resulted in the continued possession by the Air Carriers (ACs) of PSC collections, integrated on unflown and unexpired airline tickets, held in trust on behalf of the government/MIAA.

14.1 In 2016, MIAA sought the opinion of the Office of the Solicitor General (OSG) on the integration of the Domestic PSC (DPSC) and International PSC (IPSC) at the point of sale of airline ticket, on the issue whether:

> *Can MIAA legally consider terminal fees collected by the AC as government money and demand for its remittance, even if it is not yet flown considering that under MIAA Administrative Order No. 1, terminal fee is assessed only on departing passengers?*

14.2 In its letter-reply dated December 19, 2016 the OSG opined to wit:

> *First, MIAA can demand the remittance of the terminal fees collected by the ACs even if it is not yet flown. Article IV, Section 3 of both Memoranda categorically states that the terminal fees collected by the ACs are to be regarded as monies held in trust on behalf of the MIAA.*

> *However, considering that terminal fees can be assessed only against departing passengers, MIAA has an obligation to ensure that the payment made by the concerned passengers would be* ***credited*** *once they depart from the terminal. In this regard, we believed that if MIAA cannot provide a mechanism for such purpose, it will be better for the collected terminal fees on tickets not yet flown to remain in the hands of the ACs in the* ***meantime.***

14.3 Despite the opinion by the OSG, the current policy of the MIAA requires the ACs to remit the PSC on flown and expired tickets only based on the Revised Implementing Guidelines (IG) to the Memorandum of Agreement (MOA) between MIAA and ACs on the Integration of the PSC, Honoring Exemption at the Point of Sale of Airline Ticket.

14.4 We agree with the opinion of the OSG. In our view, there is an unreasonable delay on the part of MIAA in providing a mechanism mentioned by the OSG *that will ensure that the payment made by the concerned passengers would be* ***credited*** *once they depart from the terminal.* From the time that the opinion was rendered by OSG in 2016 until now, MIAA still has no mechanism or system for the aforementioned purpose.

14.5 We recommended that Management develop a policy for the accounting, reporting and monitoring of PSCs collected by the ACs on behalf of MIAA. 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.

14.6 Management contended that the Authority cannot demand from the ACs the remittance of PSC at the point of sale of airline ticket. As provided in MIAA Administrative Order (AO) No.1, series of 2000, the said charge can only be assessed to departing passengers for the use of airport facility. In the absence of the said condition, they have no legal basis to demand the same from the ACs.

14.7 Further, Management clarified that unflown tickets can either be cancelled, unused or expired after it has reached its validity period of 15 months from date of issuance. Hence, the Authority can only demand the quarterly remittance of the corresponding PSC therein after the lapse of its prescriptive period.

14.8 However, during the exit conference, Management mentioned that they are not deviating from the position of the Audit Team. They commented that they must make sure that there is a solid ground or an in-depth study before giving any directives to ACs.

14.9 The Audit Team noted that the explanation of the MIAA was the same facts presented to the OSG when they sought the opinion of the latter on the issue. The OSG rendered its opinion quoted earlier, after a thorough review of the facts presented. Thus, we suggest that the MIAA's policy be aligned with the opinion of the OSG. The Audit Team will monitor MIAA's compliance with the recommendation.

15. Some Air Carriers (ACs) did not remit the Passenger Service Charges (PSCs) on flown tickets within the period provided under the Memorandum Circular (MC) No. 18, series of 2019, thus penalty should apply. As of February 28, 2021, at least P154.491 million PSCs collected by ACs integrated with the flown tickets remained unsettled.

15.1 Section 6.2 of MC No. 18, series of 2019, provides for the following due dates of remittance of the PSC:

- *On or before the end of the current month - for the PSC collections from passengers with departure date 1st to 15th day of the month;*
- *On or before the 15th day of the succeeding month – for the PSC collections from passengers with departure date 16th day to end of the month.*

15.2 MIAA waived the interest charges for late settlement of accounts that falls due from March 15, 2020 to December 31, 2020 pursuant to Board Resolution (BR) No. 2020-044, which might have been perceived by ACs as waiving of the interest charges on their late settlement of PSC remittances as well, hence, the delay and/or non-remittance of PSC by the ACs.

15.3 In our view, because terminal fees collected by ACs are regarded as monies held in trust on behalf of the MIAA, Section 6.5 of MC No. 18, series of 2019, should apply. Section 6.5 of MC No. 18, series of 2019, provides that *"in case of failure to remit PSC in full amount to MIAA within the specified time, the Air Carrier or its agent shall pay MIAA the balance of the unremitted amount plus interest equivalent to 18% per annum".*

15.4 We recommended that Management impose the penalty on the late remittances pursuant to Section 6.5 of MC No. 18, series of 2019.

15.5 Management commented that MIAA has decided to waive the interest charges for late settlement of accounts *to include even that of PSC remittances in consideration of the present crisis being faced by the airline industry*. While no one has been spared from the adverse effect of the pandemic, it is without doubt that the ACs are the hardly hit by the crisis. To help them recover from the financial impact of COVID-19 to their operations, the Authority treated them with leniency by extending the grant of waiver on interest charges on PSC collections.

15.6 In addition, they clarified that records would show that the ACs, in general, have been religiously remitting their collections on due dates until the onset of pandemic. This is primarily because they are well aware that PSCs are not their monies but only held in trust for the account of passengers and that failure to remit the same within the prescribed period would warrant the imposition of a stiff penalty surcharge of 18 per cent per annum.

15.7 The only reason for the accumulation of unremitted PSC charges is that given the tight financial condition they are experiencing during this pandemic, the AC withheld the payment of the same and *took advantage of the reprieve given by the Authority on interest charges*. In any case, the ACs which failed to remit the PSC collections due for CY 2020 are now starting to settle their arrears while others have expressed their intentions to enter into a compromise agreement.

15.8 Management's comment is duly noted, however, the Audit Team maintains the position that terminal fees are money collected for the account of the MIAA, thus penalty per Section 6.5 of MC No. 18 still applies. Though, it was represented by Management that BR No. 2020-044 includes the waiving of interest on late remittance of terminal fees collected by ACs on behalf of the MIAA, the waiving of penalty charges was not clearly provided in the said Resolution.

16. Some MIAA land assets are occupied by informal settler families (ISFs) and other parties who are not paying rent to MIAA resulting in foregone potential rental income and eventually, putting these land assets at risk.

16.1 Section 2 of Presidential Decree No. 1445 provides that *"All resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned."*

16.2 During the ocular inspection of the MIAA land assets conducted by the Audit Team, together with personnel from Business and Real Estate Investment Development Division (BREIDD) and Accounting Division (AD), the following were noted:

a. Lot with Transfer Certificate of Title (TCT) No. S-142163, Lot 3270-B-3-A-2-L, containing an area of 50,013 sq. m., is occupied for commercial use by another party who is not paying any lease to MIAA;

b. Based on the interview with BREIDD, the occupant of Lot No. 3270-B-3-A-2-K with TCT No. S-142165, containing an area of 3,387 sq. m., wants to purchase the property but is not willing to pay rent to MIAA; and

c. Of the 600,130 sq. m.-lot in Pasay City, 255,954 sq. m. are occupied by other parties who are not paying rent to MIAA. Some of these lots are occupied for commercial use.

16.3 It appears that MIAA does not have control to safeguard or protect its interest on its own land assets and cannot assert its right to collect rental income from ISFs and establishments. This resulted in loss of opportunities and potential rental income for MIAA and eventually, put the ownership of MIAA on these land assets at risk.

16.4 **We recommended that Management:**

a. **Assert MIAA's right on the properties occupied and being used by other parties, like demanding payment of rental dues for the use of the properties and/or consider initiating legal action against those ISFs; and**

b. **Monitor the land assets regularly to prevent the proliferation of informal settlers.**

16.5 Management commented that MIAA property covered by TCT No. 142165 is subject of a pending case with the Supreme Court which is handled by the Office of the Solicitor General (OSG). MIAA property covered by TCT No. 142163, per research conducted by BREIDD, is a subject of a double titling issue, which was already referred by BREIDD to the Legal Office.

16.6 With regard to the 600,130 sq. m. MIAA property, Management informed the Audit Team that these areas were already occupied by ISFs even before these were transferred to MIAA by its predecessor, Civil Aeronautics Administration (CAA). Part of these areas consisting of 34.44 hectares was already proclaimed for socialized housing, while the remaining 25.56 hectares, although densely populated, remained unproclaimed or not subject to any proclamation. There were already initiated efforts by the National Housing Authority (NHA) and the neighborhood associations of ISFs occupying subject areas to have these properties proclaimed as well.

16.7 BREIDD has already endorsed to the Legal Office the subject observations, specifically the non-payment of rentals by occupants of MIAA land assets as this concerns legal opinion/comments.

16.8 Management also informed the Audit Team that previously, MIAA has created an Environmental Safety and Sanitation Task Force (ESSTF) whose primary responsibility is to prevent the proliferation of ISFs within the NAIA Complex by leading the inspection, demolition or clearing activities of illegal structures which were erected after the NHA's census of ISFs in 2002. However, after the dissolution of the ESSTF sometime in 2005, BREIDD with its limited manpower, has since assumed such responsibility with the assistance of other MIAA offices such as the Airport Police Department, Engineering and the General Services Division. BREIDD continuously seek the assistance of these Offices to prevent the proliferation of these ISFs.

16.9 The action taken by the Management on the prevention of the proliferation of ISFs is duly noted and the Audit Team will monitor the outcome of the cases involving TCT Nos. 142165 and 142163.

17. The documents relative to the disposal of various unserviceable waste materials and properties for only P445,999, which includes Property and Equipment (PE) costing P19.744 million, with carrying amount of P4.731 million, were not furnished to the Audit Team 20 days before the advertisement of the call to public auction, contrary to COA Circular No. 89-296. As a result, the review of the propriety of the disposal was not performed.

17.1 Section VI.A of COA Circular 89-296, dated January 27, 1989, provides that *to facilitate audit of the disposal/divestment of corporate assets as herein contemplated, the management of the government corporation concerned shall furnish the Auditor at least twenty **(20) days before the advertisement of the call to public auction** with a copy each of the following documents:*

a. Program for disposal with time schedules;

b. Inventory Report showing the itemized list and complete description of the assets;

c. Appraisal Report showing the appraised values of the assets, prepared by an in house and/or independent appraiser; and

d. Disposal procedure adopted

which are prepared by the concerned offices/department of the corporation and submitted to the proper Disposal Committee or similar body constituted by the management thereof.

17.2 MIAA disposed unserviceable waste materials and properties listed as “Lot 1” per Invitation to Bid dated February 17, 2020. Included in the items disposed are property and equipment costing P19.744 million with carrying amount of P4.731 million[12].

17.3 The Audit Team was not furnished with the documents relative to the disposal at least 20 days before the advertisement of the call to public auction. The disposal-related documents were submitted to the Audit Team per letter dated June 9, 2021 on the same date.

17.4 The Audit Team is required to review the corporation’s procedures for the sale of assets to determine their propriety and conformity with existing laws and regulations upon receipt of the mentioned documents as required in Section VI.A.2 of the Circular. Also, under the Circular, in the event that the appraisal is equal to or higher than the net book value, the Auditor need not forward the appraisal/valuation report to the COA Central Office.

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[12] In the absence of properly filled up Inventory and Inspection Report of Unserviceable Property (IIRUP) showing the cost, accumulated depreciation and Net carrying amount of the PPE, with certification of inspection, the Audit Team used the List of Unserviceable and Condemnable Supplies, Materials and/or Equipment prepared by the Accounting Division for Disposal Reference No. 2020-A-001 and 202-A-002, an attachment to JEV No. 2020-09-073 dated September 30, 2020.

17.5 In the disposal conducted, the PE are valued lower than the net book value and therefore need further review and/or inspection. However, the non-compliance with Section VI.A of COA Circular No. 89-296 prevented the Audit Team from performing the required review.

17.6 We recommended that Management, henceforth, strictly comply with the guidelines prescribed under COA Circular No. 89-296 on the disposal of government properties.

17.7 Management explained that the disposed items under review have already been auctioned on March 4, 2020, when the attention of Management has not been called on the inconsistencies being practiced with respect to the prescribed rules and regulations on the disposal of government properties, similar to the circumstances as the CYs 2018 and 2019 asset disposals previously noted by the Audit Team.

17.8 Moving forward, the Authority was able to come up with policies and procedures including corrective measures which are now being implemented to address the deficiencies in the control of asset disposal, as follows:

a. Issuance of Memorandum Circular No. 31, series of 2020, Re: Policy on Disposal of Unserviceable Supplies, Spare-parts, Materials, Property, Plant and Equipment;

b. Re-composition of the Assets Disposal Committee;

c. Revision of Report of Unserviceable and Condemnable Supplies, Materials and/or Equipment (RUCSME) which includes a certification from concerned offices;

d. Itemized list of PE is being incorporated in the IIRUP to include the acquisition cost, property no., date acquired, no. of years in service, accumulated depreciation and net book value;

e. Allocation of additional area for storage and segregation of surrendered/condemned disposable properties;

f. Separate auction for items containing hazardous waste materials with the assistance of Pollution Control Officer; and

g. MIAA personnel involved in the disposal of unserviceable properties are required to keep themselves abreast of the current rules and regulations, issuances, circulars etc. for effective and efficient administration and management of MIAA properties.

17.9 Likewise, Management informed the Audit Team that they would engage the services of a third-party appraiser to evaluate the value of the disposable assets and arrive at their proper appraisal prices.

17.10 The Audit Team noted the issuance of the policy guidelines and will monitor MIAA's compliance with the recommendation.

18. The CY 2020 GAD Plan Budget (GPB) and Gender and Development (GAD) Accomplishment Report (AR) were not submitted to the Philippine Commission for Women (PCW) through the Gender Mainstreaming Monitoring System (GMMS), contrary to PCW Memorandum Circular (MC) Nos. 2019-02, 2020-03, and 2021-01, thus preventing the PCW from conducting review and endorsement of the same.

18.1 Item 2.1 of PCW MC No. 2019-02, *Preparation and Online Submission of Fiscal Year (FY) 2020 Gender and Development (GAD) Plans and Budgets,* dated August 1, 2019, instructs that the submission, review and endorsement of GPBs shall be coursed through the GMMS, PCW's online system for managing GAD profiles, GAD Plans and Budgets (GPBs) and GAD Accomplishment Reports (ARs), as well as for generating GAD-related reports.

18.2 PCW also issued MC No. 2020-03 dated April 27, 2020 to provide guidance on the revision and/or implementation of the CY 2020 GPB to implement GAD Programs, Activities and Projects (PAPs) that address gender issues and concerns related to the COVID-19 situation.

18.3 Meanwhile, Item 1.0 of MC No. 2021-01, *Submission of FY 2020 GAD Accomplishment Report*, dated January 20, 2021 requires the submission of FY 2020 GAD AR to PCW on or before March 19, 2021 through the GMMS.

18.4 It was noted that both the GPB and the GAD AR, were not reviewed/endorsed by the PCW contrary to the above cited MCs. Inquiry with the GAD Focal Point System (GFPS) revealed that MIAA's GPB and AR were not submitted through the GMMS but instead opted for manual submission to the PCW Office. The GFPS stated that they were unable to submit through the GMMS because the system crashed both on the preparation of the GPB and GAD AR. However, we noted that on both occasions the GFPS did not escalate its issues and concerns on the GMMS to the PCW to be resolved.

18.5 Also, inquiry with the PCW review moderator disclosed that the PCW only reviews and endorses/accepts GPBs and GAD ARs submitted through the GMMS. Thus, agencies are advised to submit through the GMMS for their submission to be considered as official.

18.6 The non-submission to or non-endorsement by the PCW of MIAA's GPB may result to lack of evaluation whether the GAD PAPs being implemented are aligned with the Authority's mandate, responsive to the gender needs and concerns of the Authority and its clientele, and adheres with the Philippine Commission for Women-National Economic Development Authority-Department of Budget and Management (PCW-NEDA-DBM) Joint Circular 2012-01 guidelines on the preparation of annual GPB and GAD AR.

18.7 We recommended that Management:

a. Comply with the annual requirements of the PCW on the online submission, review and endorsement of GPBs and GAD ARs; and

b. Coordinate with the PCW for proper technical support and training on the use of GMMS for encoding of the Authority's GPB and GAD ARs.

18.8 Management commented that they have initially endorsed the GPB 2020 to the PCW thru the GMMS. A print screen of the GMMS transaction for MIAA GPB 2020 is submitted. However, since they were unable to access the GMMS for the submission of the final revised CY 2020 GPB, they submitted a hard copy of the document to the PCW Office on July 29, 2020. As to the submission of the GAD AR, the same was signed by the MIAA General Manager on March 18, 2021. However, it was inadvertently set aside. The hard copies of the CY 2021 GPB and the CY 2020 GAD AR were submitted to the PCW Office on May 26, 2021.

18.9 Management's comment is duly noted. Compliance with the guidelines issued by the PCW on the submission of the GPB and GAD AR is enjoined.

19. MIAA did not utilize the Harmonized Gender and Development Guidelines (HGDG) Evaluation Tools in attributing Programs, Activities and Projects (PAPs) in the CY 2020 GAD Plan and Budget (GPB) and GAD Accomplishment Report (AR), contrary to the provisions of PCW Memorandum Circular (MC) No. 2019-02 and PCW-NEDA-DBM Joint Circular (JC) No. 2012-01.

19.1 Item 1.2.3.2.1 of PCW MC No. 2019-02 requires that:

> *Aside from implementing direct GAD PAPs to address organization- or client-focused gender issues or GAD mandates, agencies may attribute a portion or the whole budget of the agency's major program/s or project/s to the GAD budget using the Harmonized Gender and Development Guidelines (HGDG) tool, specifically the HGDG design checklist, which can either be generic or sector-specific, should be used depending on the nature of the project or program being attributed. Assessing major program/project using the HGDG tool enables the agency to identify strengths and areas for improvement to gradually increase the gender-responsiveness of the program/project. Major programs/projects subjected to the HGDG assessment shall be reflected under the GPB section on "Attributed Programs." Direct GAD activities of the agency shall no longer be subjected to the HGDG test.*

19.2 Moreover, Sections 6.4 and 10.2 of PCW-NEDA-DBM Joint Circular No. 2012-01 provides the guidelines in utilizing the attribution of major programs of an agency to the GPB and the corresponding computation on the percentage of the budget for the 'attributed programs' which might be attributed to the GAD Budget and the Accomplishment Report, depending on its HGDG scores.

19.3 Review of the GPB and the GAD AR disclosed the following:

Table 26 – Utilization of GAD Budget

Total Budget (COB)	GAD Budget	Percentage	Utilization	Percentage
9,299,996,000	683,711,345	7.35%	824,815,926	120.64%

Type of Activity	No. of PAPs	GAD Budget	Utilization		% of Utilization
			No. of PAPs Implemented	Actual Expenses	
Client-focused	9	1,410,450	2	153,711	10.90%
Organization-focused	11	1,079,700	5	546,723	50.64%
Attributed PAPs	41	681,221,195	16	824,115,492	120.98%
	61	**683,711,345**	**23**	**824,815,926**	

19.4 The total GAD Budget for CY 2020 is P683.711 million which is equivalent to 7.35 per cent of the total budget of the Authority. Of the said GAD budget, a total of P681.221 million or 99.64 per cent pertains to PAPs that were attributed to GAD which consist mostly of infrastructure projects and procurement of property and equipment.

19.5 However, review of the GPB disclosed that the Authority did not conduct an assessment of its attributed projects using the prescribed HGDG tool. Instead, the entire budget for each project was allocated to the GAD Budget.

19.6 Inquiry with the GFPS revealed that the non-utilization of the HGDG tool was due to lack of expertise of the GFPS members which have prevented them in assessing whether their plans and programs are gender-responsive and if they have achieved its target to determine the percentage of the budget of the Authority's existing and proposed PAPs that could be attributable to the GAD Budget.

19.7 Also, as can be observed in Table 26, the actual expenses of attributed PAPs exceeded the GAD Budget by P141.105 million despite having implemented only 16 out of the 41 attributed PAPs, affecting the reliability and accuracy of the actual expenses in the GAD AR as well as the attribution of GAD related activities.

19.8 We recommended that Management prioritize capacity building of GFPS members in the use of HGDG evaluation tools to assess the gender-responsiveness of the Authority's PAPs, attribution of relevant cost of its PAPs to the GAD Budget, and in order to provide technical assistance to all concerned personnel of the Authority on gender mainstreaming.

19.9 Management commented that MIAA has started to implement the use of HGDG checklist to attribute Programs, Projects and Activities, as can be gleaned from the issuance of Memorandum dated November 7, 2019, on the use of HGDG. However, due to lack of knowledge among MIAA personnel on the use of the said checklist, the same was not fully complied with.

19.10 Although some members of the MIAA GAD Focal Point System have attended the training on HGDG in 2017, the number is insufficient to address the needs of the entire organization.

19.11 Hence, they have scheduled training programs in CY 2021 on the use of GAD Tools [HGDG for Design and Infrastructure Checklist and the Project Implementation Maintenance and Monitoring Evaluation (PIMME)] to capacitate supervisors and technical writers of the various MIAA Offices on the use of the same. In fact, they have just concluded two batches of HGDG Design and Infrastructure Checklist Webinar last April 27 to 28, 2021 and May 3 to 4, 2021 attended by around 120 personnel composed of GFPS members and supervisors from various MIAA offices.

19.12 The Audit Team will monitor MIAA's commitment to capacitate supervisors and technical writers of the various MIAA Offices on the use of the HGDG tools.

20. Gender and Development (GAD) Accomplishment Report (AR) for CY 2020 submitted to the Audit Team, as required by Section 10.4 of PCW-NEDA-DBM Joint Circular No. 2012-01 and Section 6.0 of PCW Memorandum Circular (MC) No. 2021-01, was not properly supported thereby precluding the team from conducting a thorough audit of the GAD AR.

20.1 Section 10.4 of the PCW-NEDA-DBM Joint Circular No. 2012-01 requires that GAD AR shall be accompanied by the following:

a. Brief summary of the reported program or project;
b. Copies of reported policy issuances;
c. Results of HGDG tests, if any; and
d. Actions taken by the agency on COA audit findings and recommendations, if any.

20.2 Likewise, Section 5.3 of PCW MC No. 2021-01 states that:

> *PDF copies of the results of HGDG PIMME/FIMME checklist, the program/project brief and accomplishment report; details of expenditure; as well as the relevant MOVs for the agency self-rating, such as attendance sheets, monitoring tools, or list of sex-disaggregated data or gender statistics have been used and/or collected, among others, shall be attached to the agency's GAD AR submission.*

20.3 Further, Section 6.0 of same MC states that: *Agencies are also requested to attach narrative reports which could include good practices and testimonies of their GAD accomplishments in their GAD ARs using the attachment facility (Column 11) of the GMMS.*

20.4 We noted that the GAD AR submitted to the Audit Team was not accompanied by supporting documents as required in the above mentioned Circulars. Thus, the Audit Team was precluded from further evaluating the accomplishments of the Authority.

20.5 We recommended that Management strictly comply with the pertinent provisions set forth under Section 10.4 of PCW-NEDA-DBM Joint Circular No. 2012-01 and annual requirements of the PCW pertaining to the attachment of the required supporting documents to the GAD AR, and submit the same to the Audit Team for further verification.

20.6 Management admitted that they were unable to attach the HGDG evaluation checklists on the proposed attributed projects in view of the absence of the said documents.

20.7 MIAA is hoping that they shall be able to capacitate their personnel and ultimately comply with the requirements on the submission of the GPB and AR.

20.8 Management's comment is duly noted. The Audit Team will monitor MIAA's compliance with the recommendation.

21. Compliance with Tax Laws

Taxes withheld for CY 2020 were recognized and remitted within the prescribed period. December 2020 taxes withheld were remitted in January 2021.

22. Compliance with Rules on Government Mandatory Deductions and Remittances

Statutory deductions for Government Service Insurance System, Philhealth and Home Development Mutual Fund contributions of MIAA employees were withheld and remitted as of December 31, 2020, including government share. December 2020 statutory deductions were remitted in January 2021.

23. Status of Suspensions, Disallowances and Charges

23.1 Below is the summary of the Notices of Suspensions, Disallowances and Charges issued and settled during the year.

Table 27 – Status of Suspensions, Disallowances and Charges

Audit Action	Beginning Balance January 1, 2020	Issued	Settled/ Matured into Disallowance	Ending Balance December 31, 2020
Suspensions	0	0	0	0
Disallowances	58,736,954	0	0	58,736,954
Charges	0	0	0	0
	58,736,954	**0**	**0**	**58,736,954**

23.2 Of the P58.737 million disallowances, P42.871 million pertains to excess overtimes rendered by the officials and employees of the Authority in 2010. An entry of judgement has been rendered by the Court. The Commission Proper (CP) has yet to issue the COA Order of Execution (COE) to enforce settlement.

23.3 Other Notices of Disallowances (NDs) issued in 2019 pertains mainly to the disallowance of Representation Allowance and Transportation Allowance (RATA) of MIAA officials totaling P15.772 million. The ND for the RATA has a pending Motion for Reconsideration with the CP.

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 follow:

Reference (CY 2019 AAR)	Observations	Recommendations	Status of Implementation
Observation No. 1, Page 53	The faithful representation of the Unearned Revenue account amounting to P148.364 million cannot be ascertained due to the existence of unsubstantiated amount of P33.215 million covering the balances in 2004 and prior years.	Direct the Accounting Division to document the lump sum amount and make adjustments in the books, if necessary.	Partially Implemented Reiterated in Observation No. 6 of this Report.
Observation No. 2, Page 54	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.	Direct the Accounting Division to make the necessary adjustment in the books to correct the error.	Implemented Adjustment was prepared to effect the correction.
Observation No. 3, Page 55	The recorded balance of the Passenger Boarding Bridges classified as Airport Equipment in the amount of P239.724 million and the related Accumulated Depreciation account are doubtful due to unsubstantiated discrepancy between the GL and the lapsing schedule amounting to P18.039 million	(a) Conduct a thorough review and verification of the discrepancy and effect appropriate adjustments;	Partially Implemented Discrepancy between the General Ledger and Lapsing Schedule has been adjusted but correctness cannot be ascertained because the 2018 lapsing schedule and pertinent documents were

Reference (CY 2019 AAR)	Observations	Recommendations	Status of Implementation
	resulting in the understatement of the Airport Equipment account and overstatement of the related Accumulated Depreciation account by the same amount.		not submitted to the Audit Team. Reiterated in Observation No. 2 of this Report.
		(b) Submit the 2018 lapsing schedule and other supporting documents; and	Not Implemented Management did not submit lapsing schedule for 2018. Reiterated in Observation No. 2 of this Report.
		(c) Reconcile records regularly to ensure that the recorded transactions are correct and updated.	Not Implemented Management did not submit lapsing schedule for 2018. Reiterated in Observation No. 2 of this Report.
Observation No. 4, Page 56	The non-monitoring of compliance with the Concession Contracts and MIAA Administrative Order No. 1, series of 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	(a) Compliance with the installation of Point of Sale (POS) application;	Partially Implemented Management issued memoranda on guidelines and strict implementation on the use of POS application. Reiterated in Observation No. 5 of this Report.
		(b) Timely billing and recording of CPF due from concessionaires, Including interest/	Partially Implemented Issued Demand Letters to unpaid

Reference (CY 2019 AAR)	Observations	Recommendations	Status of Implementation
	ultimately in the understatement of income from CPF.	penalty, if any; (c) Maintenance of Subsidiary Ledger for each concessionaire in the Accounting Division; (d) Concession Management Division (CMD) to provide Accounting Division a quarterly list of new, amended and deleted/terminated concession contracts; (e) Management Information System Division (MISD) to generate from the Tenant Sales Monitoring System (TSMS) a Summary of Monthly Sales of Concessionaires (SMSC) which shall be forwarded to the Accounting Division as basis for billing and recording of CPF due from concessionaires; and	concessionaires. Partially Implemented Management issued Memorandum Circular (MC) No. 06, series of 2021, on Guidelines on Concessionaires Sales Monitoring System. Implemented Partially Implemented This is partially addressed by MC No. 06, series of 2021. Reiterated in Observation No. 5 of this Report.

Reference (CY 2019 AAR)	Observations	Recommendations	Status of Implementation
		(f) MISD to immediately report/coordinate with CMD/concerned MIAA office the list of concessionaires with missing or incomplete POS transactions for immediate action.	Partially Implemented This is partially addressed by MC No. 06, series of 2021. Reiterated in Observation No. 5 of this Report.
Observation No. 5, Page 61	The uniform and accurate gathering of data on aircrafts and passengers' movement in all NAIA terminals required under MIAA MC No. 06-M (series of 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.	(a) Direct the concerned officials/personnel to strictly follow and implement MIAA MC No. 06-M (series of 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-	Implemented Initiated inclusion of a module in Financial Management Information System (FMIS) computerization the information on flight and passenger load. Partially Implemented Currently, Management is spearheading the amendment of MC No. 06-M. Implemented Management implemented a reconciliation

Reference (CY 2019 AAR)	Observations	Recommendations	Status of Implementation
		M and other guidelines related thereto.	process to resolve discrepancy and settle understatement of remitted PSC.
Observation No. 6, Page 64	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.	(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;	Partially Implemented Management conducted an investigation and the Audit Team is waiting for the official report to be released.
		(b) Comply with the guidelines prescribed in the disposal of government properties; and	Implemented MIAA is currently implementing strict adherence with the guidelines on the disposal of government properties.
		(c) Craft/formulate a policy on disposal of MIAA properties anchored from the existing disposal manuals and other related laws, rules and regulations.	Implemented Management issued MC No. 31, series of 2020 on the disposal of unserviceable properties, spare parts, property and equipment.
Observation No. 7, Page 73	The computerization project intended primarily to address the deficiencies of the existing manual	(a) Demand from the Contractor any undelivered/ uncompleted work/deliverables;	Partially Implemented The remaining uncompleted work

Reference (CY 2019 AAR)	Observations	Recommendations	Status of Implementation
	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.		is the Verification and Finalization of Reports. Some reports/outputs were already verified and currently being used. While some are still awaiting real data, which is still in the process of digitalization.
		(b) Coordinate with the officials/ personnel involved in the Project and take immediate action on the issue/concern raised; and	Implemented Management had already issued orders providing guidance or clarity on previously ambiguous instructions; retrained personnel involved; and realignment of job description.
		(c) Effect the roll-out of the project as soon as completed.	Partially Implemented The end-to-end roll-out of the project has yet to implement because there is a remaining ongoing activity, that is, to completely populate the concessions registry module for all other modules to operate; generate remaining bills and validate the same.

Reference (CY 2019 AAR)	Observations	Recommendations	Status of Implementation
Observation No. 8, Page 77	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 Republic Act (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.	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.	Partially Implemented
Observation No. 9, Page 82	MIAA was not able to allocate at least five per cent of its budget for Gender and Development (GAD) programs and activities as required in Section 36 of RA 9710 or the Magna Carta of Women.	Allocate at least five per cent of its annual budget for GAD related projects and activities as mandated in Section 36 of RA 9710.	Implemented GAD Budget allocated for CY 2020 was 7.35 per cent of the total budget for CY 2020.

Reference (CY 2019 AAR)	Observations	Recommendations	Status of Implementation
Observation No. 10, Page 82	The GAD Accomplishment Report for CY 2019 was not submitted to the Auditor as required under Item V of COA Circular No. 2014-001 dated March 18, 2014, thus, the implementation of the GAD Plan and Budget cannot be verified.	GAD Focal Point should strictly adhere to Item V of COA Circular No. 2014-001 on the timely submission of the said report to the COA Audit Team.	Partially Implemented Reiterated in Observation No. 20 of this Report.