

**Civil Aviation Authority of Sri Lanka -2012**

**1. Financial Statements**  
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**1.1 Qualified Opinion**  
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In my of opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Civil Aviation Authority of Sri Lanka as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Comments on Financial Statements**  
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**1.2.1 Sri Lanka Accounting Standards**  
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According to paragraph 24 of Sri Lanka Financial Statements Reporting Standard No.1, the impact resulting in the conversion of the equity prepared in terms of Sri Lanka Accounting Standards in the preceding year to the new Sri Lanka Accounting Standards should be reconciled and a statement of reconciliation should be furnished. But such reconciliation statement had not been furnished.

**1.2.2 Unexplained Differences**  
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An unexplained difference of Rs.175,742 existed between the amount of loans granted to officers according to the Register of Loans and the financial statements presented.

**1.2.3 Lack of Evidence for Audit**  
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The evidence indicated against each item shown below had not been presented for audit.

Item	Value	Evidence not made available
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	Rs.	
Debtors	259,470,945	Confirmation of Balances and Age Analysis
Creditors	322,075,745	Confirmation of Balances and Age Analysis
Prior year Adjustments	103,646,766	Detailed Schedules and Supporting Documents

## 1.2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions.	Non-compliance
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(a) <u>Parliamentary Acts</u>	
(i) Finance Act, No.38 of 1971 Section 10(5)	Even though the surplus income after the appropriations should be credited to the Consolidated Fund, the accumulated profits from the year 2003 to the year 2012 amounting to Rs.489,967,146 had not been formally credited to the Consolidated Fund.
(ii) Inland Revenue Act, No.38 of 2000 Section III (a)	Even though the Pay As You Earn Tax on the Salaries and other earnings of the officers of Civil Aviation Authority should be paid from their personal salaries, the Pay As You Earn Tax totalling Rs.14,241,598 in respect of the 06 years from the year 2007 to the year 2012 had been paid from the fund of the Authority
(b) <u>Public Administration Circulars</u>	
(i) Circular No. 26/92 of 19 August 1992	Even though the State Emblem and the name of the institution should be painted on all motor vehicles except the official motor vehicles allocated to the officers, it had not been done in respect of 04 motor vehicles.
(ii) Circular No. 14/2008 of 26 June 2008	(i) Contrary to the Circular, the officers not entitled to official motor vehicles had been paid Rs.20,000 per month and the other

officers including the office aides had been paid Rs.13,250 per month as a monthly travelling allowance. The amounts so paid in the preceding year and the year under review amounted to Rs.20,967,837 and Rs.28,348,259 respectively.

- (ii) Fuel allowance totalling Rs.2,217,120 comprising Rs.500,640 at the rate of Rs.20,860 per month to two officers who are not entitled to official motor vehicles and Rs.1,716,480 at the rate of Rs.17,880 for 08 other officers had been paid contrary to the circular instructions.

(c) **Government Procurement Guidelines**

Guideline 2.14.1

Those transactions exceeding Rs.50 million should have the approval obtained from the Ministry Procurement Committee, it had not been so done in connection with the procurement of a building on rent for the Authority at a annual rental of Rs.106,021,080.

(d) **Public Enterprises Circulars**

(i) Circular No.95 of 14 June 1994

- (i) Professional allowance at the rates from Rs.10,000 to Rs.25,000 to 05 officers and a special allowance at the rates from Rs.750 to Rs.5,000 to 04 other officers had been paid monthly contrary to the Circular and without obtaining formal approval. The total allowance paid in the year under review amounted to Rs.1,912,880.

- (ii) The acting allowance of Rs.17,625 paid to the Senior Director for acting in the post of the Director General formerly had

been paid to him by adding to his salary as a special allowance even after he was released from the acting post with effect from May 2010. The total allowance paid from May 2010 to the end of the year under review amounted to Rs.528,750.

- (ii) Circular No.PED/12 of 02 June 2003  
Section 9.12
- A contribution of Rs.5,494,638 had been paid contrary to the provisions in the Circular in the year under review for obtaining full insurance cover on hospital and surgical expenses for the employees and all members of their families. The annual insurance premium per employee ranged between Rs.38,400 to Rs.60,600.

- (iii) Circular No.PED/39 of 09 October 2006
- (i) Disregarding the fuel allowances approved by the Circular, unlimited fuel had been supplied to 04 Senior Officers of the Authority. The value of excess fuel supplied amounted to Rs.1,598,004.

- (ii) The Director General had used another motor vehicle for his private purposes in addition to the motor vehicle allocated to him. A sum of Rs.464,850 had been spent in the year under review on fuel for that motor vehicle.

(e) Management Services

Circulars

- Circular No.49 of 24 December 2012
- According to the Circular, a maximum of Rs.10,000 can be paid as a bonus by the Statutory Boards. Contrary to that a sum equivalent to the salary of one month had been paid as bonus during the year under review. Accordingly, the Director General had obtained a sum of Rs.79,750 as the bonus. Nevertheless, the

total bonus paid contrary to the Circular amounted to Rs.3,543,736.

(f) Treasury Circulars

No.1A1/2002/02 of 28  
November 2002

Even though a separate Register of Computers and Accessories should be maintained, it had not been so done.

**2. Financial and Operating Review**  
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**2.1 Financial Review**  
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According to the financial statements presented the operations of the Authority for the year under review had resulted in a pre - tax profit of Rs.618,187,444 as compared with the pre- tax profit of Rs.228,897,727 for the preceding year, thus indicating a favourable variance of Rs.389,289,717 in the financial results. The increase of operating income and the income from the supply of services had been the main reason for the improvement of the financial result for the year under review.

**2.2 Analytical Financial Review**  
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Even though the overall income for the year under review as compared with the preceding year had increased by 32.40 per cent due to the increase of the foreign sales surcharge income resulting from the increase of airline passenger movements and the expenditure on staff expense, the expenses on foreign conferences, training and workshops, administrative expenses and the other expenses had increased by 16.57 per cent, the overall expenditure for the year had decreased by 28.43 per cent as no provision had been made in the year under review to the Accident Investigation Fund as compared with the preceding year.

Accordingly the pre-tax operating profit for the year under review, as compared with the preceding year, had increased by 170.07 per cent.

**3. Operating Review**  
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**3.1 Performance**  
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According to the information made available to audit an analysis of the progress of the major operating activities as compared with the two preceding years is given below.

<u>Item</u>	<u>Particulars</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
(a) Aircraft Movements	(i) Charter Flight Hours	1,782	1,782	1,317
	(ii) Regular Air Transport Flight Hours	46,616	41,891	32,590
(b) Completed Audits (Number)	(i) Airworthiness	--	01	--
	(ii) Operations	--	--	01
	(iii) Combined (Operations and Airworthiness)	--	--	--
	(iv) Aerodrome	--	--	--
	(iv) Air Navigation Services	01	01	--
(c) Safety, Protection and Supervision Activities Carried out (Number)	(i) Number of Ramp Inspections (Airworthiness)	--	65	30
	(ii) Number of Ramp Inspections (Combined)	--	--	--
	(iii) Aerodrome	--	20	09
	(iv) Dangerous Goods	--	35	08
	(v) Flying Schools Inspections (Airworthiness)	--	--	--

Even though the particulars relating to the accidents caused in the air operations and the reports made thereon, investigations, files and the courses of action, guidance given and orders made by the Authority for the minimization of such incidents were called for by the audit, none of the particulars had been furnished to audit. As such an extensive analysis of the operating performance of the Authority could not be done.

The information on the investigations and data relating to the investigations of aircraft accidents and incidents in terms of provisions in Sections 57 and 61 of the Civil Aviation Services Act, No.14 of 2010 and the Annex 19 of the International Civil Aviation

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 Services Act enforced in terms of Section 2 of that Act were called for audit. The Director General informed me that the use of the information for purposes outside the

activities under the Act has been debarred by law and the request had been forwarded to the Secretary to the Ministry for advice.

### 3.2 Non-revision of Fees for Services provided by the Civil Aviation Authority

The fees charged for the various services provided by the Authority such as the issue of Aircraft Pilots Licenses and approval for high rise buildings had not been revised during the 7 preceding years. The last revision of the fees had been done in the year 2006.

The particulars of the fees and the issue and renewal of licenses are given below.

#### (a) Fees Recovered

<b>Category of Licence</b>	<b>Primary Licence Fee</b>	<b>Evaluation Fee</b>	<b>Renewal Fee</b>	<b>Evaluation of Renewal</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Pilot - Cadet	690	500	345	250
Pilot - Private	1,380	500	690	250
Pilot - Commercial	4,140	1,500	1,035	750
Pilot – Air Transport	6,900	2,000	1,725	1,000
Air Signal Control	1,380	500	345	750
Aircraft Operating Engineer	2,070	1,500	--	--

#### (b) Issue and Renewal of Licenses

<b>Category of Licence</b>	<b>2012 Number</b>	<b>2011 Number</b>	<b>2010 Number</b>
Pilot - Cadet	155	115	142
Pilot - Private	94	98	76
Pilot - Commercial	264	317	300
Pilot – Air Transport	414	382	359
Air Signal Control	44	81	91

### 3.3 Management Inefficiencies

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The following observations are made.

- (a) The Authority had spent a sum exceeding Rs.3.5 million for carrying out alterations to a building taken on rent and not owned by the Authority. Attention had not been paid for the set off of that amount against the rent of the building.
- (b) A condition unfavourable to the Authority had been included in the rent agreement for the building obtained on rent for the Authority that the annual increase in the rates should be borne by the Authority. As such, the additional rates of Rs.317,100 for the year under review had been paid from the Fund of the Authority.
- (c) A sum of Rs.28,214,123 had been spent out of the Fund of the Authority for the construction of stores rooms and drivers rest room and installation of entrance doors in the first and third floors of the building procured on rent for a short period of 03 years.
- (d) Even though 525 ties valued at Rs.249,375 at Rs.475 per tie had been purchased in the year 2011 for the Aviation Services Inspectors, the ties had not been issued as those did not conform to the specified standard and had been kept in the stores even by the end of the year.
- (e) A sum of Rs.11,000 had been paid from the Fund of the Authority for the printing of Visiting Cards for an external person not included in the staff of the Authority.
- (f) The Centenary Celebration of Aviation Services in Sri Lanka which fell in the year 2011 had not been held in that year. But the celebrations had been held in the year 2012 at a cost of Rs.14,000,000 without the participation of the Line Ministry and other parallel institution.
- (g) According to the Scheme of Recruitment to the post of Deputy Director of Civil Aviation (Aircraft) and the post of Deputy Director (Air Navigation) the possession of the Air Traffic Control License is compulsory and the 04 officers recruited on that qualification had been paid a monthly professional allowance of Rs.25,000. Nevertheless, the annually renewable licences had not been renewed over a number



of years. Similarly two former officers had been paid a professional allowance at a monthly rate of Rs.75,000 for the possession of the Air Transport Pilot Licence.

- (h) The Authority had spent a sum of Rs.426,200 for providing insurance cover for hospital and Surgical expenses to 5 members of the Board of Directors of the Authority and 02 officers recruited on the piece rate basis and all members of their families.
- (i) An officer recruited to the Ministerial staff had been appointed to the permanent staff of the Authority while in active service in the former post and had been paid a sum of Rs.3,051,897 in the preceding year and the year under review as salaries, fuel allowance, medical insurance and foreign travel. Nevertheless, the officer had not reported for duty at the Authority even on a single day.
- (j) The Authority established solely for the regulation of air services had appointed a Marketing Promotion Officer for a post of Marketing Promotion and had been paid a sum of Rs.240,000 at the rate of Rs.80,000 per month. Nevertheless, the officer had not reported for duty even on a single day and had not performed any services. The approval of the Department of Management Services had not been obtained for the appointment.
- (k) A Citizen of Canada who is not a Citizen of Sri Lanka servicing in the Civil Aviation Authority of Canada visiting Sri Lanka on a tourist visa had been appointed as a Consultant without following the Scheme of Recruitment for Airworthiness Consultant and without obtaining the approval of the Cabinet of Ministers. Even though he had informed the withdrawal from the agreement on the following day itself, the Authority had paid a sum of Rs.177,250 for one month.
- (l) The Authority had paid a sum of Rs.78,000 from its Fund to 06 female officers of the Authority for obtaining Driving Licences.

### **3.4 Resources of the Authority given to other Government Institutions**

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Contrary to Section 3.8.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Authority had spent a sum of Rs.290,084 in connection with sundry expenses of the Ministry while 05 motor vehicles of the Authority had been released for use by the Ministry. The Authority had spent a sum of Rs.1,225,657 in the year under review on fuel for those motor vehicles.

### **3.5 Staff Administration**

The position of the approved and the actual staff of the Authority as at 31 December 2012 had been as follows.

<b>Category of Staff</b> -----	<b>Approved Staff</b> -----	<b>Actual Staff</b> -----	<b>Number of Vacancies</b> -----
Director General/ Chief Executive Officer	01	01	--
Senior Executive Officer	34	23	11
Executive Officer	42	35	07
Working Officer	55	54	01
Office Aides	34	33	01
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Total	166	146	20
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#### **4. Accountability and Good Governance**

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##### **4.1 Budgetary Control**

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Significant variances ranging from 142 per cent to 186 per cent were observed between the estimated and the actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

#### **5. Systems and Controls**

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of systems and control.

- (a) Accounting
- (b) Collection of Income
- (c) Investigation of Aircraft Incidents
- (d) Budgetary Control
- (e) Expenditure Control

(f) Contract Administration

(g) Human Resources Management