

Airport and Aviation Services (Sri Lanka) (Private) Limited - 2020

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Airport and Aviation Services (Sri Lanka) (Private) Limited (“Company”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine 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 the Company’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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

My objective is 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards 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 Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I 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 my 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 the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the 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 the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company 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.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Policies

Audit issue	Management Comments	Recommendation
<p>In contrary to the direction of the Letter of Secretary to the Treasury No: PE/GOCO/1/1 dated 09 February 2006, the Company had taken over only the liabilities neither valuing the land and buildings and other movable and immovable assets owned by the Government and record in accounts nor issuing shares to the Government of Sri Lanka for the net assets transferring.</p>	<p>AASL has already valued all BIA Buildings from the Department of Valuation. However ownership of land used by AASL has not been transferred to the Company. Upon Obtaining the Board approval all revalued Building figures will be taken in to accounts subject to clearance of legal ownership and explore the possibility of issuing shares to the Treasury on net assets as stated in the cabinet memorandum.</p> <p>Further, action has already been taken to obtain the consent in writing from the Director General of Civil Aviation Authority for the use of all movable and immovable assets as the statutory service provider empowered by Aviation Act No 14 of 2010.</p>	<p>It is recommended to complete the revaluation process as early as possible and issue the shares to GOSL on net assets as directed by the Secretary to the Treasury.</p>

6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following instances of non-compliance with laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 14 of the Civil Aviation Act, No.14 of	A Master Plan on establishment or expansion	Master Plan of MRIA was prepared and approval was obtained from Civil Aviation Authority of Sri	Master plan should be prepared and action should be taken to get

2010	aerodromes had not been prepared by the Company even by 31 December 2020.	Lanka. BIA has a Master Plan which was prepared in 1983 and to be updated. AASL has taken action to carryout Master Plan study for BIA and updated. Master plan will be available at the end of year 2022.	approved.
(b) Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance			
(i) Paragraph 9.2 (d)	The Organization Chart and the approved Cadre of the Company had not been registered with the Department of Public Enterprises, General Treasury.	Board has approved the cadre and AASL sent the information to Department of Management services to obtain the approval on 21 Jan 2021.	Action should be taken to get the approval for the Organization Chart from General Treasury.
(ii) paragraph 9.3.1 (i)	The Scheme of Recruitments and Promotions (SOR) of the Company had not been approved by the Ministry concerned with the concurrence of the General Treasury.	SORP committee is appointed by the company to review the SOPRs in 11 June 2020. Committee has decided to review the grievances of the employees for SORPs. After reviewing the SORPS, committee will conclude the process of converting the SORPs to the format of MSD.	Action should be taken to prepare and register the Schemes of Recruitment and Promotion with the Department of Public Enterprises of General Treasury.
(iii) Paragraph 9.14	HRM Manual of Procedures had not approved by the Board with the concurrence of the General Treasury.	The final draft of the HR Management Policy Manual document was submitted to AASL by the PWC consultant for further review and it is being reviewed with the respective HR Managers whether there are any amendments to be done. However, due to the Covid-19 pandemic situation meetings with the consultant could not be held as per the planned schedule.	HRM Manual of Procedures should be approved by the Board and obtain the concurrence of Secretary to the Treasury through the Line Ministry.

1.7 IT General Controls

Audit Issue

An ERP system compatible with current technology had not been introduced to the Company even as at 31 May 2021. Moreover, Finance System of the Company has been implemented in 1984 and COBOL which is an outdated programming language has been used to develop the system. High risk is identified in continuity of these modules used in the finance system due to continuous modification requested by the users and there is no integration between the modules and other related systems.

Management Comment

Limitations of the current finance system are the cause for the issue. This has been identified and the management has started to introduce a new system to finance and supply chain management modules. The project timelines were delayed due to many reasons. As per the current approval given by the Chairman on May 2021 the ERP system is scheduled to be taken Live on 1st July 2021.

Recommendation

It is recommended to introduce and implement the new ERP system as early as possible to meet the company's requirements.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.2,504,429,627 as against the profit in the preceding year amounted to Rs.10,996,009,352. Therefore, a deterioration amounting to Rs.13,500,438,979 of the financial result was observed. The main reason for the deterioration is decreasing of revenue by Rs.18,076,392,839 that is 70 per cent comparing with the preceding year due to Covid 19 Pandemic.

2.2 Trend Analysis of major Income and Expenditure items

	2020 (Rs.)	2019 (Rs.)	Variance (Rs.)	%
Revenue				
- Aeronautical Revenue	2,290,647,423	5,430,766,464	(3,140,119,041)	(58)
- Non Aeronautical Revenue	5,285,212,945	20,221,486,743	(14,936,273,798)	(74)
Other Income	212,551,351	40,988,731	171,562,620	419
Finance Income	3,665,084,724	4,164,672,412	(499,587,688)	(12)
Administration & Establishment Expenses				

Staff cost	5,770,201,664	6,513,810,228	(743,608,564)	(11)
Repairs & Maintenance	265,898,453	462,842,807	(196,944,354)	(43)
Provision for debtor's impairment	643,481,376	397,143,394	246,337,982	62
Finance Cost				
Exchange (gain) /loss (On loans)	2,268,147,704	(156,729,149)	2,424,876,853	1547

The following observation is made.

- a) The increase of the other income by 419 percent mainly due to increase in net exchange gain on transactions in 2020 comparing the exchange loss incurred during 2019.

2.3 Ratio Analysis

Type of Ratio	2020	2019	2018	2017	2016
Current Assets Ratio (number of times)	7.68	7.23	3.49	2.78	2.64
Quick Assets Ratio (number of times)	7.55	7.10	3.43	2.71	2.60
Net Profit/(Loss) Ratio (%)	(32)	43	18	42	38
Basic (Loss) / Earnings per Share (Rs.)	(12,522)	54,979	26,566	43,574	34,598
Return on Net Assets (%)	(7)	28	19	37	42
Revenue per Passenger (Rs.)	3,279	2,580	2,640	2,085	1,936

The following observations are made.

- a) Increase in income tax receivable by Rs.833 million was the main reason attributed for the increase in Current Ratio and quick Assets Ratio.
- b) The earning per share had decreased by 123 percent during the year mainly due to the loss for the year under review occurred because of Covid pandemic.

3. Operational Review

3.1 Performance

The physical performance of the Key Performance Indicators (KPI's) of the Company is given below.

Key Performance Indicator	2020	2019	2018	2017	2016
Number of International Flight Movements	20,881	62,195	67,351	62,850	61,637
Number of Total Passenger Movements	2,375,056	9,958,688	10,884,028	9,957,502	9,466,248
Cargo Movements (Metric Tons)	150,075	259,089	279,559	274,044	248,348
Total Cost per Flight Handled (Rs.'000)	727	235	318	202	216

Performance of all Key Performance Indicators (KPI'S) had been deteriorated during the year under review comparing with preceding years due to the severe effect of Covid 19 pandemic to the field of aviation.

3.2 Management Inefficiencies

Audit Issue

Neither a feasibility study nor environment impact assessment had been conducted before commencement of Construction of Jaffna International Airport at a total cost of Rs.218 million as the first phase during the year 2019. Further, Jaffna International Airport had been reported an operational loss amounting to Rs.46.5 million and Rs.61.1 million in the year 2019 and 2020 respectively.

Management Comment

Project was carried out as per the direction of the line Ministry and Civil Aviation Authority of Sri Lanka. The said requirement was raised by AASL. However with the given short period it was not carried out.

Recommendation

A feasibility study or environment impact assessment should be conducted prior to implementation of any development project to ensure the sustainability of the Project.

3.3 Operational Inefficiencies

Audit Issue

Assets coding system and properly updated assets register had not been made available for audit.

Management Comment

MRIA Fixed Asset register is updated with new a 16 digit coding barcode readable asset coding system for all movable assets and submitted to the audit.

BIA Fixed Asset register is currently being updated with new codes and verification details of 2020 in order to upload into the new on-going ERP project.

Recommendation

Updated Assets register should be maintained by the Company.

3.4 Under -utilization of Funds

Audit Issue	Management Comment	Recommendation
<p>The Company had entered into two agreements with Japan International Cooperation Agency for funding of 74,397 Japanese Yen million for Phase II Stage 02 of Bandaranaike International Airport Development Project on dates of 28 March 2012 and 24 March 2016. However, the contract value equivalent to the 82 percent of the funding value, had been awarded on 04 March 2020 with a huge delay. Further the Company had paid a sum of Rs.328 million to the Japan International Cooperation Agency from 20 April 2013 to 20 April 2021 as commitment fee due to under-utilization of funds. Changing the roof design of new terminal building had been caused for the delaying of the project.</p>	<p>Contract awarded value of Package A- JPY 41,554 Mn + LKR 35,136Mn = JPY 60,764Mn (Conversion Rate as at 12.2.2021 Buying Rate LKR 1.829=1 JPY) The contract sum equivalent to 81.68% of the funding value, had been awarded on 4th March 2020. However due to outbreak of Covid 19 pandemic, there was a delay in mobilizing of Contractor's foreign staff and finally, Works commenced on 15th December 2020. Further, progress of the project as at 14th February 2021 was 0.06% against the planned progress of 0.03%. Commitment charges disbursed as at 20th April 2021 was JPY 235Mn from the Loan no SLP 104 which was signed on 28th March 2012. Further, Company had paid JPY 90.86 Mn as Front End fee for the loan No SLP-114 which was signed on 24th March 2016.</p>	<p>Action should be taken to complete the construction of package A as per the contract agreement and should review the construction progress periodically to avoid further delays.</p>

3.5 Procurement Management

Audit Issue	Management Comment	Recommendation
<p>Most of the procurement activities had not been executed within the time scheduled and it was observed a huge delay in procurement.</p>	<p>Action is being taken to avoid unnecessary delays.</p>	<p>Procurement activities should be executed with in the time frame and delays should be avoided.</p>

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
<p>The sustainable goals as per the United Nations Sustainable Development Agenda had not been identified and included in to the Corporate plan/Annual plan of the Company.</p>	<p>Not given</p>	<p>Sustainable development goals should be identified by the Company with the coordination of other related institutions early.</p>