

Airport and Aviation Services (Sri Lanka) (Private) Limited - 2021

1 Financial Statements

1.1 Opinion

The audit of the financial statements of the Airport and Aviation Services (Sri Lanka) (Private) Limited (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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 Opinion

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 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

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. Further, on the request of the Company on the implementation of above cabinet decision, Attorney General had advised to take a fresh Cabinet decision by his letter dated 08 February 2010, as it involves inter alia, transfer of lands and buildings of the airport(s) and all other movable and immovable assets presently owned by the Civil Aviation Authority and the Government of Sri Lanka respectively. However, no action had been taken by the Company to obtain a fresh Cabinet decision up to date.

Moreover, by the gazette notification of Minister of Transport and Civil Aviation dated 21 December 2017 under the Civil Aviation Authority Act No.34 of 2002, the Minister have vested and transferred Katunayake Airport, Ratmalana Airport, Land, Buildings and structures of Civil Aviation Training Centre at Rathmalana, The Aeronautical Communication Transmission Station at Attidiya, Radio Navigational Aids at

Management Comments

We're currently in the process of valuing all movable and immovable assets through Government valuation department. Building and Motor Vehicle Valuation is ongoing. Upon completion of such all immovable properties, will be taken in to accounts subject to clearance of legal ownership and explore. 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 immovable assets as the statutory service provider empowered by Aviation Act No 14 of 2010.

Recommendation

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. Further, necessary steps should be taken to determine the nature of the ownership of these assets.

Gampaha and Pamunugama, Radar Station at Pidurutalagala, Holiday Bungalow at Nuwara Eliya and Anuradhapura Land of 0.125 hectares to Civil Aviation Authority of Sri Lanka. Therefore, the ownership of lands and buildings used by the Company was doubtful in audit. Meanwhile, only buildings of the Bandaranaike International Airport had been re-valued during the year under review and no action had been taken to complete the valuation and issue shares to Government of Sri Lanka to date.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue

No action had been taken to recover the outstanding debtor balance over 365 days from Sri Lankan Airlines for Landing & Parking charges and Aerobridge Charges, Rental & other charges including default interest charges, amounting to Rs.1,413.5 million as at the end of year under review and it was 35 per cent from the total trade debtors over 365 days of AASL as at that date.

Management Comment

SLA has settled all charges invoices and only the interest invoices are outstanding. Accordingly,

Recommendation

Reasonable steps should be taken to recover the over dues.

1.7 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.

Section 14 of the Civil Aviation Act, No.14 of 2010

Non-compliance

A Master Plan on establishment or expansion of aerodromes had not been prepared by the Company even by 31 December 2021.

Management Comment

AASL has made an attempt to update existing master plan obtaining funds under the Korean Grants. However this attempt was failed due to the non-listing of this project for 2020 budget of Korean

Recommendation

Master plan should be prepared and action should be taken to get approved as in the Civil Aviation Act.

Government. Hence AASL decided to proceed Master Plan update utilizing AASL own funds and Budget allocation was made for Year 2020 and 2021.

RFP called for Selection of Consultant for preparation of Master Plan for BIA and bids are in the evaluation stage for selection of a Consultant.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.2,083,501,758 as compared with the corresponding loss in the preceding year amounted to Rs.2,504,429,629. Therefore, an improvement amounting to Rs.420,927,871 of the financial result was observed. The main reasons for the improvement was increase in other income by Rs.258,382,485 that was 110 per cent and increase in exchange gain on fixed deposits conversion by Rs.2,004,679,040 that was 260 per cent comparing with the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

	2021 (Rs.)	2020 (Rs.)	Variance (Rs.)	Percentage of Variance % Increase/ (Decrease)
Revenue				
-Aeronautical Revenue	2,299,185,952	2,290,647,423	8,538,529	0.37
- Non Aeronautical Revenue	5,086,984,442	5,485,690,833	(398,706,391)	(7)
Other Income	492,782,034	234,399,549	258,382,485	110
Finance Income	3,321,110,256	3,665,084,725	(343,974,469)	(9)
Administration & Establishment Expenses				
Staff cost	6,040,068,058	,776,645,144	263,422,914	5

Repairs & Maintenance	354,388,479	265,981,053	88,407,426	33
Provision for debtor's impairment	(600,581,521)	643,481,376	(1,244,062,897)	(193)
Finance Cost				
Exchange (gain) /loss (On loans)	2,141,205,420	2,268,147,704	(126,942,284)	(6)

The following observations are made.

- The increase of the other income by 110 percent mainly due to increase in net exchange gain on transactions in 2021 comparing the exchange gain incurred during 2020.
- The decrease in provision for debtors impairment by 193 per cent during the year under review is mainly due to provision write back on dues amounting to Rs.593 million because of recoveries made.

2.3 Ratio Analysis

Type of Ratio	2021	2020	2019	2018	2017
Current Assets Ratio (number of times)	5.98	7.68	7.23	3.49	2.78
Quick Assets Ratio (number of times)	5.88	7.55	7.10	3.43	2.71
Net Profit/(Loss) Ratio (%)	(26)	(31)	43	18	42
Basic (Loss) / Earnings per Share (Rs.)	(10,417)	(12,522)	54,979	26,566	43,574
Return on Net Assets (%)	(5)	(7)	28	19	37
Revenue per Passenger (Rs.)	5,234	3,373	2,580	2,640	2,085

The following observations are made.

- Increase in current liability of borrowings by Rs.549 million and increase in other payables by Rs.2,123 million were the main reasons attributed for the decrease in Current Ratio and quick Assets Ratio.
- The earning per share had increased by 17 percent during the year mainly due to the decrease in loss for the year under review.

- c) Revenue per passenger had increased by Rs.1,861 due to percentage of decrease in passenger movements which is 37 per cent is more than the percentage of revenue decrease in the year under review which is 2 per cent.

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	2021	2020	2019	2018	2017
Number of International Flight Movements	21,204	20,881	62,195	67,351	62,850
Number of Total Passenger Movements	1,505,479	2,375,056	9,958,688	10,884,028	9,957,502
Cargo Movements (Metric Tons)	241,506	150,075	259,089	279,559	274,044
Overflying Movements (No's)	9,339	16,370	45,674	43,804	39,413
Total Cost per Flight Handled (Rs.'000)	574	738	235	318	202

The following observations are made.

- a) Performance of all Key Performance Indicators (KPI'S) had been deteriorated during the year under review and preceding year comparing with years 2017, 2018 & 2019 due to the severe effect of Covid 19 pandemic to the field of aviation.
- b) Although number of international flight movements had increased by 1.5 per cent, number of passenger movements had decreased by 37 per cent.

3.2 Uneconomic Transactions

Audit Issue

Japan Airport Consultants (JAC) & Nippon Koei Co. Ltd had been selected to obtain consultancy services of design and post design for the BIADP Phase II Stage II as per the cabinet decision taken on 19 December 2007. Consultant had taken 04 years (2009 to 2012) for the detail design planning of BIADP for 6 million passenger capacities. The Company had paid to Rs.344.5 million to JAC & NK for detail design plan for 06 million passenger capacity of BIADP. However, in the year 2013 the

Management Comment

Japan Airport Consultants had been instructed to re-design the BIADP Phase II Stage 2 due to BIA which handled 4.24 million passengers in the year 2009 handled 6.14 million passengers in the year 2011, remarkable increase of 2 million passengers within a period of two years. Congestion was already experienced at BIA during peak hours which results in passenger discomfort and inconvenience. BIA was expected to handle nearly 7 million passengers in the year 2012. It was proposed to further enhance

Recommendation

Action should be taken to avoid uneconomic sunk costs like this and Aviation Development Plan and Master plan for airports should be developed early with the coordination of Civil Aviation Authority and all other relevant institutions.

above consultants had been instructed to re-design the BIADP Phase II Stage II due to changing 06 million passenger capacities to 09 million passenger capacity. Another 03 years (2014 – 2016) had been taken by JAC & NK to redesign the development project. Therefore, this Consultancy Payment had become uneconomic to the company.

the passenger handling capacity of BIA by additional 3 million passengers per annum in addition to 6 million passengers per annum already planned.

3.3 Management Inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) It was observed that the operating cost of the MRIA in the year 2021 was Rs.2.02 billion and it was 21 times higher than the operating Income. Net Loss after tax for the year under review was Rs.4.44 billion and Cumulative net losses after tax from year 2017 to 2021 were Rs.20.59 billion. Although the expected annual passenger capacity of the Mattala Airport was around one million, the total number of passengers during the last five years was only 91,747 and total flight movements of last five years were 2,396. Accordingly, it was observed that a total cost of Rs.36,564 million equivalent to USD 247.7 million which was incurred for the construction of this airport was not effectively used. Further, a sum of Rs.2,610 million had been paid by AASL as the annual loan instalment including interest for the debt of USD 190 million obtained for the above construction.	Government of Sri Lanka has taken a decision for the operation of Jaffna International Airport, Batticaloa International Airport, Mattala Rajapaksha International Airport and upgrading the operations of Colombo International Airport (Rathmalana) as international civil airports under the administration of the Company. And also, AASL is considering to handover Jaffna International Airport and Batticaloa International Airport to Sri Lanka Air force to carryout civil operations as done previously.	A policy decision should be taken on the operations and upgrading of Ratmalana Airport, Jaffna International Airport, Batticaloa International Airport and Mattala International Airport and in more efficient and cost effective manner.
(b) Colombo International Airport, Rathmalana had incurred continuous losses and cumulative loss from 2017 to 2021 was amounting to	Same as above (a)	-Do-

Rs.1,693.66 million including the loss for the year under review of Rs.461.08 million. In the year 2020 and 2021 aircrafts movements were only 13 per year and the passenger movements were around 60 and 28 respectively.

- | | | | |
|-----|---|-------------------|------|
| (c) | Jaffna International Airport had inaugurated on 17 October 2019. There were only 142 aircrafts movements and 4,441 number of passenger movements recorded from inception and continuous losses incurred for last 03 consecutive years. No revenue had been earned in the year 2021 and an expenditure of Rs.40.74 million had been incurred. | Same as above (a) | -Do- |
| (d) | Batticaloa International Airport had reopened to civilian operation on 25 March 2018. No revenue was earned and only Rs.74.64 million had been incurred as expenditure for last four years. The Civil Aviation Authority had spent Rs.38.4 million on the Construction of a new passenger terminal building and Rs.482.78 million on the construction of Runway and also the State Ministry of Aviation and Export Zones Development had incurred a sum of Rs.53.61 million for final payments of construction of Runway. | Same as above (a) | -Do- |

3.4 Under -utilization of Funds

Audit Issue -----	Management Comment -----	Recommendation -----
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	Contract awarded value of Package A- JPY 41,554 million + LKR 35,136 million = JPY 60,764 million (Conversion Rate as at 12.2.2021 Buying Rate LKR 1.829=1 JPY) The contract sum equivalent to 81.68 per cent of the funding value, had been awarded on 4 th March 2020.	Action should be taken to complete the construction of package A as per the contract agreement and should review the construction progress periodically

value equivalent to the 82 per cent of the funding value had been awarded on 04 March 2020 with a huge delay. Further, the Company had paid a sum of Rs.359.5 million equivalents to 250.5 Japanese Yen million from 20 April 2013 to 20 April 2022 including a sum of Rs.31.5 million equivalent to 14.8 Japanese Yen million for the year under review to the Japan International Cooperation Agency as commitment fee due to under-utilization of funds. Changing the roof design of new terminal building in several time by policy decisions had been caused for the delaying of the project and that charges had become uneconomic to the company.

However due to outbreak of Covid 19 to avoid further pandemic, there was a delay in mobilizing of Contractor's foreign staff and finally, Works commenced on 15 December 2020. Further, progress of the project as at 14 February 2021 was 0.06 per cent against the planned progress of 0.03 per cent. Commitment charges disbursed as at 20 April 2021 was JPY 235 million from the Loan no SLP 104 which was signed on 28 March 2012.

Further, Company had paid JPY 90.86 million as Front End fee for the loan No SLP-114 which was signed on 24 March 2016.

3.5 Procurement Management

Audit Issue

Most of the procurement activities had not been executed within the time scheduled and it was observed a huge delay in procurement.

Management Comment

Action is being taken to avoid unnecessary delays.

Recommendation

Procurement activities should be executed with in the time frame and delays should be avoided.

3.6 Defects in Contract Administration

The following observations are made.

Audit Issue

(a) JAC & NK Consultant had requested sum of Rs.87.32 Million as consultancy fees for changing scope of construction of package "A" which 3 storied car park in to 7 storied car park. Cabinet approval regarding this charge has been granted on 24 August 2021 As per Cabinet Memorandum No.21/1427/327/048 dated 30 July 2021.

Management Comment

Consultancy fees of Rs.87.32 million for proposed the Multi-storied car park at new location was not proceeded. Subsequently, Cabinet Approval was obtained on 21st March 2022 to implement following.

- De-scope the Multi-storied car park from the Phase II Stage 2 Package 'A' works.
- Utilize the funds of Rs.2 Billion allocated for construction of the car park

Recommendation

Scope and design of constructions should be clearly identified prior to enter into agreements.

in Package ‘A’ project for new technical functions of Package ‘A’ works.

- Appoint Cabinet Appointed Negotiation Committee (CANC) and Project Committee (PC) to evaluate the detailed investment proposal mentioned in 3.3 (Authorize Airport and Aviation Services (Sri Lanka) (Private) Ltd to obtain detailed investment project proposal from the SHANXI CIG, Shanxi, China for the mixed development project with Car Park, a four-star Hotel and Commercial spaces on BOT Basis), and negotiate with the recommended investment proposal of Mix Development with Car Park, Hotels and Commercial Spaces on BOT basis and make recommendations to the Cabinet to enter into an agreement with AASL as per the negotiated Terms and Conditions.

- (b) As per the board decision on 13 October 2020, the approval had been granted to award the contract for selling the earth excavated under the Project “B” at Bandaranaike International Airport to the third highest bidder to the price of Rs.16,537,102 by indicating the urgent requirement to provide the required space to store the materials and implement the Project of Package A, without considering the recommendations of Technical Evaluation Committee to recall bids. However, highest two bidders had rejected the contract due to delay in
- Bids opened on 24th June 2020 and TEC recommendation was submitted on 14th July 2020.
 - Approval was granted to collect clarifications on 07th July 2020 and Chairman’s approval was obtained to negotiate with the 3rd highest offer on 28th August 2020.
 - We requested highest bidder to submit the certification of registration (PCA-3) from registrar of Public Contract on 20th August 2020 to award the above Works within the
- TEC recommendations should be considered and contract agreements should be signed before implementing a project. Further, supervision on contracts should be maintained for the success of projects.

awarding contract. Therefore, loss for the company by not selecting maximum price was Rs.37,984,898. As per the board minute dated 27 November 2020, vice chairman had discussed with the contractor and agreed to increase the contract price from Rs.16,537,102 to Rs.17,537,560. Though activities of excavation had been implemented by 27 October 2020, the Company had entered into the contract agreement on 09 February 2021 with a delay of 105 days. Accordingly, it was controversial in the implementation of earth excavated activities before signing the agreement. Further, the contractor had removed the 61,890 cubes of soil out of 78,000 cubes as a percent of 79 as at 01 March 2022.

- bid validity period.
- Highest offeror and Second offeror withdraw their bids on 26th August 2020 and 16th August 2020 respectively.
- AASL en-cashed the bid security bond of highest and second highest bidders as they withdraw their bids within the bid validity period.
- Board decision was obtained to award on 13th October 2020 and got the certificate of registration (PCA-3) on 15th October 2020.
- The Letter of Acceptance was issued on 16th October 2020 and the Contract Agreement was signed on 09th February 2021.
- Bid was awarded to 3rd highest qualified offeror due to remove the earth piled up to 04 end area urgently to facilitate the storage space requirement of Package 'A' Works under BIADP Phase II Stage 2 which was scheduled to start on September 2020 and Preliminary works of removal of earth was started before signing of the agreement.
- The progress of work badly effected due to Covid 19 pandemic and consequent lock down imposed by the Government.