

## **Civil Aviation Authority of Sri Lanka - 2021**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statements of the Civil Aviation Authority of Sri Lanka (“Authority”) 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 and Finance Act No. 38 of 1971. 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 Authority 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**

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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**

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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 Authority’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 intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority 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 Authority.

## 1.4 Audit Scope

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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 Authority'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 Authority'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 Authority 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 Authority, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority 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 Non-Compliance with Sri Lanka Accounting Standards

The following non compliances are observed.

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
<u>Sri Lanka Accounting Standard No.16 – Property, Plant and Equipment</u>		
(i) According to Section 51 of the standard and No. 4.8 of the accounting policy of the Authority, the useful life and scrap value of the fixed assets should be reviewed annually. Any difference, if any, should be adjusted in the accounts in terms of Sri Lanka Accounting Standard No.08. However, the Property, Plant and Equipment with a carrying value of Rs.2,231,885,553 owned by the Authority had not been reviewed by the end of the year under review.	CAASL had planned to complete the Revaluation of Assets and reassess the useful lifetime of assets during the year 2021. But Valuation Department has not responded to the request due to the difficulties with the COVID situation of the country. This has been scheduled to be completed during the year 2022.	The useful life of fixed assets should be reviewed annually in terms of the Standard.
ii) The Authority had not revalued the fully depreciated assets at a cost of Rs.172,661,470 which have been utilizing by the Authority.	Same answer as above 1.5.1 (i)	Action should be taken to revalue the assets.

### 1.5.2 Unauthorized Transactions

<b>Description of unauthorized transaction</b>	<b>Management Comment</b>	<b>Recommendation</b>
As per Department of Management Services Circular No: 03/2018 dated 18 July 2018, even though allowances should not be paid without obtaining the approval	The Board Decision is taken by the provision in terms of the power vested to the Board of	Approval of the Department of Management Services should be obtained in

of the Department of Management Services of the General Treasury a managerial allowance of Rs.50,000 per month had been paid to 27 officers of the higher management in the Authority as per a decision taken by the Board of Directors, with effect from May 2018. Thereon, a total allowance of Rs.50,128,553 had been paid by the Authority from the year 2018 to 2021 including the paid amount of Rs.13,061,742 for the year under review.

Directors in dealing with the staff emoluments as per the section 7(t) of Part II & section 18 of Part V of the CAASL Act No 34 of 2002. granting new allowances to the officers as per the circular.

## **1.6 Accounts Receivable and Payable**

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### **1.6.1 Receivables**

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#### **Audit Issue**

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The Value Added Tax (Input Tax) receivable from Inland Revenue Department in relation to the purchases as at 31 December 2021 was Rs.251,139,837. As per the age analysis report as at 31 December 2021 receivables for more than five years among them was Rs.33,149,196. Even though several discussions had been held with the Inland Revenue Department for deduction of this tax receivable, final decision had not been made.

#### **Management Comment**

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Discussions and follow-up actions are ongoing, and there is no doubt about receiving the refunds. Hence a provision had not been made in financial statements in this regard.

#### **Recommendation**

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Steps should be taken to settle the VAT receivable as soon as possible.

## **2. Financial Review**

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### **2.1 Financial Result**

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The operating result of the year under review was a profit amounting to Rs.329,898,389 as compared with the corresponding profit of Rs.237,151,840 of the preceding year, thus observing an improvement in the financial result by Rs.92,746,549. This improvement had mainly been attributed by the increase in the operating income from Rs.803,216,822 in the previous year to Rs.993,344,282 in the year under review by Rs.190,127,460 due to favorable situation in the country while attracting tourists after Covid 19 pandemic.

## 2.2 Trend Analysis of major Income and Expenditure items

	2021 (Rs. Mn)	2020 (Rs. Mn)	Change (Rs. Mn)	Percentage in Change %
<b>Operating Income</b>	<b>993</b>	<b>803</b>	<b>190</b>	<b>24</b>
Overseas Sales Surcharge	892	680	212	31
Service Charge of Embarkation Levy	33	61	(28)	(46)
Income from regulatory services	68	62	6	10
<b>Non- Operating Income</b>	<b>135</b>	<b>183</b>	<b>(48)</b>	<b>(26)</b>
Interest Income	121	168	(47)	(28)
<b>Staff Expenses</b>	<b>357</b>	<b>354</b>	<b>3</b>	<b>1</b>
<b>Administration and other Expenses</b>	<b>196</b>	<b>185</b>	<b>11</b>	<b>6</b>

The following observations are made.

- i) As compared with the preceding year, the total income for the year under review had increased by Rs.142,040,361 equivalent to 14 per cent.
- ii) Income from service charge of embarkation levy had decreased by 46 per cent from Rs.61 million to Rs.33 million during the year under review due to decrease in embarkation levy collection.
- iii) Non- operating income had decreased by 26 per cent from Rs.183 Million for the previous year to 135 Million during the year under review mainly due to reduction in interest income by Rs.48 million.

## 2.3 Ratio Analysis

	2021	2020
Current Ratio	2.1:1	1.7:1
Equity Ratio	69%	62%

The following observations are made.

- i) The current ratio of the year 2020 was 1.7:1 and it has increased to 2.1:1 by the end of the year under review. This is mainly due to decrease in trade payables by Rs.655 million and increase in deposit of treasury bills by Rs.172 million & increase in cash and cash equivalents by Rs.90 million.

- ii) As per the movement of assets, equities, and liabilities, the total assets had decreased by Rs.340 million equivalents to 5 per cent whilst equities had increased by Rs.262 million representing 6 per cent, and total liabilities had decreased by Rs.603 million or 23 per cent in the year 2021 comparing to the year 2020.

### 3. Operational Review

#### 3.1 Performance

Audit Issue	Management Comment	Recommendation
(a) As stated in the Civil Aviation Authority of Sri Lanka Act, No.34 of 2002 the main objectives of the Authority are to regulate civil air operations within territory of Sri Lanka and operations of Sri Lanka Registered aircrafts outside the territory of Sri Lanka, assist in the formulation of the National Aviation Policy, prepare an aviation development plan for Sri Lanka, maintain high standards of aviation safety, issue certificates, licenses and permits relating to aviation industry, investigate on aircraft accidents, coordinate with International Civil Aviation Organization (ICAO) etc. In achieving the above objectives Key Performance Indicators (KPI's) had been established by the Authority relevant to 16 sections. However, progress of KPI's could not be compared with the targets as targets of KPI's had not been formulated in both Action Plan and Corporate Plan.	Targets of KPI's have been formulated in both Action Plan and Corporate Plan.	Only time targets had been formulated. Quantitative Targets of KPI's should be formulated in both Action Plan and Corporate Plan.
(b) An aviation development plan for Sri Lanka had not been prepared by the Authority up to 30 September 2022.	Actions will be taken to prepare the Aviation Development Plan for Sri Lanka.	An aviation development plan for Sri Lanka should be prepared by the Authority.

### 3.2 Management Inefficiencies

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The following observations are made.

<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a) Implementation of Human Resource Information System (HRIS) had planned to commence within two weeks of receiving the license and after paying initial services fee. As per paragraph 8.20 in the contract agreement first trial run of the base product had to be started on 1 May 2020. The Authority had paid the license fee on 11 August 2020 and the system should have to be started before 25 August 2020. However, even as at 31 March 2022 only two modules had been implemented out of five modules. However the date of completion had not been mentioned in the agreement. Further Department Procurement Committee approval had not been obtained for the extension of contract period.	The main reason for the delay was the limited physical working days due to the Covid-19 situation during the last two years to perform collective tasks with outsiders. CAASL currently uses the HRIS System for some applications. The final payment has not been made due to the Chat-bot module not being finalized. This module has an AI (Artificial Intelligence) integration part, which is the most complex module to develop. According to the software vendor, they are in the final stage of Chat-bot implementation now.	Relevant procurement committee approval should be obtained for the extension of time for the contract and system should be implemented in an efficient and effective manner .
(b) An amount of Rs.1,050,000 had been retained from Embarkation Levy remittance to Sri Lanka Tourism Development Authority as a deposit for more than two years for the Development of Jaffna International Airport for operation of regional commercial flights as per the Cabinet Decision taken on 11 October 2019. However, no action had been made by the Authority to commence the development of Jaffna International Airport as at 31 August 2022.	Alliance Air has submitted the plans for commencing operations in the winter schedule 2022.	The necessity of retaining the deposit should be analyzed and utilized effectively.

### 3.3 Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Authority had incurred a total cost of Rs.617,131,323 for the development of Palali Airport up to 31 December 2019. The airport had opened for operation in 2019. However, it had been suspended for operations from March 2020 due to Covid 19 pandemic. Thereon, the cost incurred for the development of Palali Airport had not been cost effective.	Alliance Air has submitted the plans for commencing operations in the winter schedule 2022.	Asset is in underutilized. Therefore, Palali Airport should be utilized in a cost effective manner.

### 3.4 Human Resources Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Board approval had been granted on 27 July 2017 to formulate a pool of designated civil aviation inspectors in Airworthiness, Personal Licencing, Aerodromes, Air Navigation Services and Aviation Security from outside resources. However, it was observed that an employee who had assigned to the Authority as a designated inspector from 01 October 2021 to 28 February 2023, was carrying out non-technical duties and a total amount of Rs.770,000 had been paid up to April 2022.	Considering the powers vested through the CAASL Act No 34 of 2002, the decision is taken to hire a person in technical areas of air transport especially on the income. The officer is required to verify the income through Embarkation Levy, as it involves certain taxes which cannot be verified by CAASL at the time of collection of the Levy. This is in relation to the Billing Settlement Plan used for the e-ticketing and CAASL loose certain money which would have been remitted. Since we don't have such knowledge of these systems, the officer was hired to verify and also to study more avenues of income in relation to the Air Transport systems.	A pool of designated civil aviation inspectors should be created to achieve the identified objectives of the board decision and unnecessary recruitments and payments should be avoided.