

Sri Lankan Airlines Limited -2022/2023

1. Financial Statements

1.1 Opinion

The audit of the consolidated financial statements of the Sri Lankan Airlines Limited (“Company”) and its subsidiaries (“Group”) for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 and the profit and loss statement, 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Company and the group give a true and fair view of the financial position of the Company and the Group as at 31 March 2023, and of their financial performance and their 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 Emphasis of Matters

(a) Materiality Uncertainty Related to Going Concern

I draw attention to Note 2.1.1 to the financial statements that discloses the Group incurred a net loss of Rs.71,306.66 million during the year ended 31 March 2023 (2022 Rs.163,583.08 million) with an accumulated loss of Rs.601,781.56 million (2022 – Rs.529,212.71 million) and, as of that date, the Group's current liabilities exceeded its current assets by Rs.418,568.67 million (2022 – Rs.292,420.15 million) and total liabilities exceeded its total assets by Rs.494,429.99 million (2022 – Rs.426,423.83 million). Further, Company incurred a net loss of Rs.73,621.53 million during the year ended 31 March 2023 (2022 – Rs.166,369.68 million) with an accumulated loss of Rs.612,376.11 million (2022 – Rs.537,505.15 million) and, as of that date, the Company's current liabilities exceeded its current assets by Rs.431,624.55 million (2022 – Rs.302,702.50 million) and total liabilities exceeded its total assets by Rs.509,174.88 million (2022 – Rs.437,036.92 million).

The existence of such events or conditions, along with other matters as set forth in Note 2.1.1, indicate that a material uncertainty exists that may cast significant doubt on the Group’s/ the Company’s ability to continue as a going concern.

(b) Aircraft Pre delivery Payments

I draw attention to Note 5 to the financial statements, relating to the aircraft pre-delivery payments as at 31 March 2023 amounting to Rs.6,288.68 million (USD 19.21 million), as the Company had made a claim for the recovery of the said amount together with damages through the dispute resolution mechanism set out in the agreement with the supplier.

My opinion is not modified in respect of these matters.

1.4 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 Group'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 Group 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 and the Group are 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 and the Group.

1.5 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 skepticism 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 Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Group;
- Whether the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.6 Audit observations on the preparation of financial statements

1.6.1 Documentary evidences not made available for Audit

Item	Amount Rs.	Evidence Available	not Management Comment	Recommendation
(a) HSBC-Hong Kong 111-417531-001	4,763,375	Bank Statements and Confirmation Letters	Management will work with HSBC Sri Lanka to establish the communication line with HSBC Hong Kong to reactivate and close the dormant bank account.	Bank statements and confirmation letters should be obtained.
(b) HSBC Hong Kong 111-417531-002	982,420			

1.7 Accounts Receivable and Payable

1.7.1 Receivables

Audit Issue	Management Comment	Recommendation
<p>The Company had not maintained age analysis for the over one year trade debtors amounting to as at 31 March 2022 and 31 March 2023 were Rs.2,028.66 million and Rs.2,522.86 million respectively and audit observed that the trade debtors amounting to Rs.1,230.83 million had remained over 5 years without being recovered as at 31 March 2023.</p>	<p>All debtors are followed up timely and relevant action is taken on all outstanding items. Also the audit committee is upraised quarterly on the debtors stated. The main item included in the above 5-year balance are Mihin Lanka-Rs.1,028 Mn (currently under liquidation last Court Hearing was in May 2023), Presidential secretariat- Rs.113 Mn (followed up at the director level, letters have been sent to all related ministries regarding the same.) Pakistan International Airlines – Rs.63 Mn (Kept open till the tax issue in Pakistan is concluded.) Also the Key items above one year but less than 5 years relate to • BSP defaults of Rs.637 Mn where legal action is being pursued by IATA for majority as recovery action. Maintenance reserve claims of Rs.518 Mn pending Lessor Approval to offset which does not have any cash flow impact. Prompt action had been taken by the management on the continuous follow is ongoing.</p>	<p>Company should carryout debtors' age analysis periodically and take necessary actions to recover long outstanding debtors in an efficient manner. And also make necessary adjustments in the financial statements as necessary.</p>

1.7.2 Payables

Audit Issue	Management Comment	Recommendation
(a) As per the financial statements of the Company year under review, the amount shown as payable to the Airport Aviation Service (Sri Lanka) Pvt Ltd (AASL) was Rs.808.14 million. However, as per the financial statements of the AASL the amount shown as receivable from the Srilankan Airlines Ltd was Rs.2,298.11 million. Hence, the difference between the two balances Rs.1,489.98 million.	The difference is reflected the unapproved invoices as at 31 March 2023 and provisions was made in the financial statements and reflected under trade and other payables. We have also conducted a reconciliation with the confirmation received from AASL and has not come across any discrepancies.	Immediate actions should be taken to reconcile the accounts balances.
(b) According to the Section 4(3) of Finance Act No.25 of 2003, any operator of an aircraft that fails to pay Embarkation Levy on time to the competent authority shall be deemed in default and interest is calculated on the total amount to be paid. As per the letter No. FN/16/2/24 dated 03 February 2023 issued by the Director General of Civil Aviation Authority, the Sri Lankan Airline Limited should pay an overdue interest amounting to Rs.449.1 million for the delayed payments period from 01 January to 31 December 2022. As per the information submitted by the Civil Aviation Authority, a sum of Rs.4,540 million is due as Embarkations Levy and a sum of Rs.122 million is recorded as delayed interest thereon for the period of January to March 2023 had not been paid even as at to date.	SLA's cash flow was severely impacted due to the pandemic, and we had to manage all operations and critical payments from the available cash. Kindly note that SLA did not receive any funding from the Treasury since April 2021. Under these circumstances, SLA was reluctantly compelled to delay these payments to CAASL (Civil Aviation Authority in Sri Lanka).	The Company should take necessary actions to pay Embarkation Levy without delay by applying relevant exchange rates.
(c) According to the accounts payable trial balance (APTB), the company's creditors balance as at 31 March 2023 was Rs.102,038.17 million. Out of that the balance over 5 years was Rs.802.30 million. And also, the creditors schedule include a debit balance of Rs.1,353.22 million. Out of that the balance over 5 years was Rs.65.43 million.	99.5% of over five-year balance of Rs.802.30 Mn consists payments related to Airport & Aviation Services (Sri Lanka) (Pvt) Ltd (AASL) which is Rs.798.27 Mn. No objection provided by Ministry of Finance, all surcharge relating previous year has been agreed to waive off.	According to the Section 6.9 of the Operational Manual for State Owned Enterprises issued through Public Enterprises Circular No. PED 01/2021, losses can be write off through a due process and therefore confirmation of write – off balances should be

Airbus France balance amounting to Rs.1,742,444 has not been settled as it is related to Airbus A350 aircraft purchase has been cleared upon obtaining confirmation from both engineering department and the supplier.

obtained from the Airport & Aviation Services (Sri Lanka) (Pvt) Ltd.

Balance of Rs.1,676,560 to Lanka Ashok Leyland PLC.

85% of over 1-5 years debit balances of Rs.1,353,201,620 consist of Rolls Royce balance of Rs.1,148,320,135. This is a debit balance only in Rs. terms and the relevant exchange impact has been reflected in the same account but not reflected in the AP trial balance.

Airbus Industries balance of Rs.49,089,335, 4% of over 1-5 years debit balance, relates to credit notes received for aircraft purchases which is being recovered from Y7 ACT Training suite cost over 10 years (Per year USD 114,500).

RRPF Engine Leasing balance of Rs.46,305,000, Fraport AG balance of Rs.41,182,256 and balance of GE Engineering Services Malaysia of Rs.12,617,571 has been recovered subsequently and this is 7% of the over 1-5 years debit balance. Total of above balances mentioned, covers 96% of over 1-5 years debit balance of Rs.1,353,201,620.

Over 5 Years Debit Balance 98.6% of over five-year debit

balance of Rs.65,431,891 consists of partially recovered credit notes related to Airbus Industries (Rs.64,542,387) received for aircraft purchases which is being recovered from Y7 ACT Training suite cost over 10 years which is explained above.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Paragraph 05 the Direction No. EL/01/2022 issued by the Director General of Civil Aviation Authority on 11 March 2022	The exchange rates announced by the Civil Aviation Authority by weekly should be applied for the Embarkation Levy conversion. However, contrary to that the Company had used incorrect exchange rates for the Embarkation Levy conversion and paid accordingly. As a result, Embarkation Levy amounting to Rs.496.4 million had been over paid for the period 01 March to 15 July 2022 and the overpaid amount had remained without been recovered even as at 31 March 2023.	The recovery of the excess payment amount had been discussed and agreed upon with CAASL. CAASL has requested to offset the same against the delay interest payable and SLA has agreed for the same.	Company should obtain the concurrence to offset the payable balance against to the receivable balance.
(b)Public Enterprise Circular No; 01/2021 and dated 16 November 2021			
(i) Section 2.3	The strategic plan shall be updated each year in line with the changes in the business environment shall be submitted to the General Treasury, not later than 15 days before the commencement of the ensuing year, the company had not been prepared strategic plan from the year 2022/23 to 2025/26. Further, the company	Company has recently updated its 5 year business plan which is in line with intended privatization/ restructuring process and the company is fully supporting this effort from the government.	Company should adhere to the provisions of the Public Enterprise Circular.

had not prepared the Action Plan for the year 2022/23.

Though Action plan has not been included in the initial document subsequently the same has been incorporated based on the format provided by the line ministry.

(ii) Section 4.3

The Risk Committee should be appointed and met quarterly to identify and assess the risk that could have an impact on the business of the operation. However, only one committee meeting had been conducted during November 2021 to March 2023.

On 13 December 2021, the Board appointed the members of the BRC. On 28 January 2022 the Board having perused the draft TOR prepared by the Company Secretary, recommended that a Consulting firm. After bid evaluation, in April 2022 the Board has selected the firm at the price of Rs.4,588,000. Due to the financial situation, decision was deferred by a month.

Company should adhere to the provisions of the Public Enterprise Circular.

The Board decided to postpone the 2 decisions of appointing a Risk Officer and, conducting BRC meetings until September 2022 for reviewing, owing to the on-going fuel and financial crisis faced the GOSL. Thereafter with Board resignations and delay in appointing new members to the Board and its subcommittees, the holding of the inaugural meeting of the BRC delayed.

(c) Section 9.2 of the Public Enterprise Circular No; PED 12 dated 06 June 2003

A procurement consultant designation had not been identified in the approved cadre of the company in the year 2020.

Unlike a position in the approved cadre, which is on a permanent basis, the position of a consultant is an

The Public Enterprise Circular No; PED 12 dated 06 June

However, the Board of Directors had decided on 29 November 2020 to appoint a procurement consultant without obtaining approval from the Department of Public Enterprises. This post had been appointed on contract basis for the monthly salary of Rs.300,000 for the both SriLankan Airlines Limited and SriLankan Catering Limited. Selection of a Procurement consultant had not been done as per Guidelines & Employment of Consultant – 2007. As per the procurement guidelines 2.6 (b), there were no evidence that TEC had get assistance from any external consultant and any services performed by the consultant during the procurement process under the guidance and supervision of the TEC. This post had been extended continuously up to now but there were no attendance report as evidence of his report requirement and a sum of Rs.10.33 million had been paid for the period of January 2021 to August 2023.

assignment for a stipulated period for a specific task. Hence the position cannot be considered in annual cadre planning. As per the Operational Manual SriLankan Airlines by virtue of being listed in Annex A, it is considered as exempted from the approval obtained from the Treasury. Accordingly, Board led by the Chairman is authorized to take decisions on such matters as necessary. Board of Directors decided to proceed with the appointment through a Service provider for a period of one year for a monthly salary of Rs.300,000. The initial appointment of the procurement consultant was for a one-year period from 01 December 2020, and this was extended for further two years in 2 occasions. Agreement was not renewed in December 2023. Attendance records prior to January 2023 could not be retrieved.

2003 is applicable for this appointment, since the appointment has been made in year 2020. Therefore, it is required to obtain prior approval from the Treasury before appointing the consultant and follow the relevant provisions in the Guidelines & Employment of Consultant – 2007. However, the company had failed to comply those provisions.

1.9 IT General Controls

Audit Issue	Management Comment	Recommendation
(a) Due to the absence of deactivation date, management may not be able to verify the timely deactivation of the user accounts and without the last login date, in case of a discrepancy, management may not be able to verify the login date to the system by users. Further, without the user status it is hard to verify the current user account status of users in the system.	Rapid has being migrated to a new system. All these identified lapses have been resolved.	Company should evade the discrepancy of the system.
(b) User accounts of resigned employees were not deactivated on a timely basis in Sky Chain system at the time Audit review, as at 31 March 2023.	Sky Chain has confirmed that even if the user status is displayed as active, the users cannot login to the system and perform any transactions since account's passwords has been expired prior to the respective resignation date. System is currently being migrated to a new system with the AD Authentication with SSO which will rectify the issue permanently.	User accounts of resigned employees should be deactivated on a timely basis in Sky Chain system.
(c) Since the duplicate user accounts were existed in the system, the existence of duplicate user accounts in system could result in the lack of accountability and misuse of information accessible through these accounts. The presence of duplicate active user accounts within a system significantly increases the chances of an individual gaining unauthorised access to the application, which could lead to inappropriate or fraudulent activities.	The system has been enhanced with the capability to search with a wildcard character % in front of the staff number before creating the user account to ensure duplicate entries will not be made.	Access permission of the resign employees to the system should be removed and deactivated on their respective dates of resignation/ retirement/ transfer.
(d) It was observed that user accounts of contract expired employees had been utilised to log into the system as at 31 March 2023. Inadequate procedures over timely deactivation of user accounts of contract expired employees could result in	As per the audit observation it was a human error and such erroneous account was deleted on the same day. Neither any transactions nor any records of login exist for the incorrect	Company should conduct user access reviews periodically to ensure that duplicate user accounts are deactivated and that system access rights of employees

significant issues when allocating responsibilities for business transactions.

account in the system.

granted on job roles and a “need to Know” and a “need to do” basis.

(e) The company had not adequately configured the password security parameters in the systems. The combination of parameters should be set so as to prevent user from utilising the same password configurations to mitigate the risk of unauthorized access.

Password settings to be corrected in the future and System is currently being migrated to a new system to address all the shortcomings.

Adequate password configuration should be enforced in the systems to mitigate the risk of unauthorized access.

(f) Some system has been designed in a way to create users without stating name of the user in the description field, which results in description field of such user accounts remains without any data and management may not be able to identify the name of the employees, who are authorized to utilize such user account.

Restricted the user creation without User description. The system will prompt for user description and will not allow to complete the user creation process without the description.

Relevant information should be included in the description field and it should be enabled as a mandatory field when creating the new user accounts for the system.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.71,307 million and the corresponding loss in the preceding year amounted to Rs.163,583 million. Therefore improvement amounting to Rs.92,276 million of the financial result was observed. The reasons for the improvement are mainly due to the increase in Passenger, Cargo, Excess Baggage & Mail revenue by Rs.244,581 million and Exchange loss decrease by Rs.79,482 million.

2.2 Trend Analysis of major Income and Expenditure items

Revenue	2022/23	2021/22	2020/21	2019/20	2018/19	Improvement/(Deterioration)	
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn.	Rs. Mn	2021/22- 2022/23	Percentage (%)
Passenger, Cargo, Excess Baggage & Mail	347,957	123,376	43,979	164,744	164,929	244,581	198
Air Terminal, Duty Free, Non Schedule Services & Flight Catering	17,215	9,561	6,715	15,407	15,412	7,654	80
Other income & gains	6,140	699	20,629	3,046	4,223	5,441	778

Expenditure							Increase/(Decrease)	
Aircraft Fuel Cost	155,559	42,759	10,569	55,328	60,673	112,800	264	
Aircraft Maintenance and Overhaul Costs	42,199	23,088	13,695	22,820	26,333	19,111	83	
Depreciation/Amortization	14,685	14,188	16,296	1,214	1,349	497	4	
Selling Marketing and Advertising Expenses	24,628	7,180	2,034	14,541	15,775	17,448	243	
Exchange Loss	25,560	37,812	6,895	6,119	3,414	(12,252)	(32)	
Net Finance Cost	88,448	129,795	35,148	22,276	10,850	(41,347)	(32)	

The following observations are made.

- Aircraft fuel Cost had increased by Rs.112,800 million and as a percentage of 264 in the year under review comparing with the preceding year.
- Other income and gains had increased by 778 percent due to increase in miscellaneous income and dividend from Srilankan Catering limited by Rs.3,065 million and Rs.2,382 million respectively.

2.3 Ratio Analysis

	2022/23	2021/22	2020/21	2019/20	2018/19	2017/18
Current Assets to Current Liabilities (Number of Turns)	0.13	0.15	0.13	0.13	0.18	0.23
Percentage of Net Loss to Revenue	20.16	125.15	89	26	24	11
Increase / (Decrease) percentage in Revenue	174.70	162.23	(72)	(0.1)	11.7	19.3

The following observations are made.

- The Current Assets to Current Liabilities Ratio of the Company is 0.23 in 2017/18 and it has been go down gradually to 0.13 up to 2022/23. Thereon it is indicating the weak working capital status of the company.
- Percentage of Net Loss to Revenue had increased in the preceding year by 46 percent and it has decreased in the year under review by 104.99 percent.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue

The Company had conducted Global promotions based on the instructions included in the Sri Lankan Airlines Pricing Strategy and Procedures manual and this manual had not been approved by the Board of Directors. Company had conducted discount of 25 percent IBE Global promotion from 01 October to 03 October 2022 for 07 month travels from 01 November 2022 to 31 May 2023 according to the above manual. Company had sold 1,219 air tickets for Rs.228.86 million. It was observed that the company had lost Rs.57.22 million from this promotion.

Management Comment

The referred pricing strategy manual is a departmental manual and approval from Board of Directors is not required.

Seat not sold prior to a flight being operate, is a loss of revenue (unlike the sale goods). Hence during period of lower demand, it common practice to carry out sales promotions to increase sales to optimize revenue.

This promotion was launched during a time when tourist arrival into Sri Lanka was considerably lower due to political & economic turmoil the country was experiencing. Hence, if this promotion was not launched, the flight capacity would not be occupied to a satisfactory level due to unsold seats.

The mentioned promotion had been resulted an incremental average sales revenue in excess of 40% compared to the average daily sales. The total value of the incremental sales generated from this promotion is Rs.290 Mn which would have been a loss to the airline if the promotion was not carried out. Please refer our response dated 03 annually 2023 to the audit query on Examination on Air Ticket Promotions.

Further, since this promotion carried out through Internet Booking Engine (IBE), there were no costs incurred for promotions similar to a physical campaign or as a distribution charge (Commission for Sales Agents). Hence, there was an additional saving for the airline in conducting this promotion via IBE.

Recommendation

Every manual should have to get the approval from the Board of Directors as per the Public Enterprise circular No; 01/2021 and dated 17 November 2021, and according to the sales analysis prior to and after this promotion no remarkable variance in the demand of the tickets. Therefore, Company should act favorably on behalf of the Company.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the need assessment of the Sri Lankan Airlines Limited (SLAL) 27 aircrafts required and currently operates with the 24 aircraft fleet. Out of that eight aircrafts are out of service as at 20 April 2023 and lease rentals aggregating to Rs.5,646.76 million had been paid for the out of service of aircrafts from the year 2021 to 20 April 2023.	Aircrafts ANC & ANF are unserviceable due to engine failures and placed on long term storage awaiting serviceable engines. Engine unavailability which is a global issue and the management is currently working on a plan to restore the same to operations. The manufacturer has agreed to provide spare engines until the original engines are repaired. • Aircrafts ANA, AND, ANE, ALH & ALN are in serviceable condition and in the operational fleet as at 30 November 2023.	Actions should be taken to utilize the out of service of aircrafts in an efficient and effective manner.
(b) According to the memorandum of understanding (MOU) signed between the Airport and Aviation Service (Sri Lanka) (Pvt) Ltd (AASL) and the SriLankan Airlines Limited (SLAL) on 29 March 2011, both parties should enter into a license/ lease agreement. However, without signed a license/lease agreement the lease rent for 10 spaces are being paid by the SLAL to the AASL since year 2011. Further 7 activities and spaces of the AASL are being used by the SLAL and lease rent is paid to the AASL on the awarding letters without signing the lease agreements.	Areas mentioned are within the scope of MOU except the bulk store which is under an awarding letter. Lease rentals have been made in accordance with the terms outlined as per the MOU which is in effective from 29 March 2011. Agreement which was in effective for Cargo Terminal (Export & Acceptance) T5 – BIA expired in 2019 and new agreement has reviewed by SLA. Awaits the final agreement from AASL. Rental payments for New Bulk Store – BIA and the Office Spaces (G64, FD30, FD41, FD51, FD55) are being settled based on the terms specified in the award letters until the new agreements is signed in December 2023.	According to the MOU, Company should enter into an agreement.
(c) As per the Financial Statements of the AASL as at 31 December 2022 surcharge on rental charges amounting to Rs.269.6 million had been shown as receivable from SLAL. Further, a sum of Rs.152.79 million out of above outstanding amounts	Further to the mutual agreement between AASL and SLA, subsequent no objection provided by Ministry of Finance, all surcharge relating previous year has been agreed to waive off. Accordingly, there is no	Company Should obtain the confirmation/ approval for waive off the balances.

was remained over 5 years without being recovered.

long outstanding amount to settle by SriLankan Airlines Ltd.

- (d) Although the relevant concession fee and lease rental payable by the SLAL to AASL shall be mutually agreed between the parties within a period of 03 months from the date of operation commenced at Mattala Rajapaksa International Airport (MRIA) and a sum of Rs.8.42 million had been paid as lease rent for the period of October 2020 to March 2023 without an agreement. Further, according to the time period of MOU between AASL & SLAL were entered for operations at MRIA had expired on 17 March 2023 but it was not renewed.

MOU signed by AASL and SLA was expired on 17 March 2023 and extended for another year with the mutual agreement under the same rates. Concession fee, license fee and land rentals for SLC and franchise fee for SLA were agreed on the same letter of award dated 28 July 2023.

Company should enter into new agreement for expired agreement.

3.3 Procurement Management

Audit Issue

Management Comment

Recommendation

- (a) Although the total cost estimate should be prepared for the expected procurement activity as per the Government Procurement Guidelines 4.3.1, total cost estimate had not been prepared for the IT procurement relating to the version upgration, system upgration and new solution. Therefore, the Company couldn't decide the suitable procurement committee and the technical evaluation committee.

Cost Estimates have prepared for both systems, Common User Passenger Processing System (CUPPS) and Automated Flight Planning Solution at the initiation of the procurement exercise and same has been included in the initiation paper approved by the procurement authority. •SLA estimated the total cost initially based on the cost of the existing system. However, cost is subjected to changes due to the technological advancements and market conditions.

Company should follow the Government Procurement Guidelines 4.3.1 and total cost estimate should be prepared.

- (b) According to the Guidelines 5.3.11(a), of the Government Procurement Guidelines, the company should be obtained a bid security ensuring that bidder will not withdraw or modify the bid during the period of validity. However, the Company had not obtained the bid security. Further, the bidder selected for the Automated Crew Scheduling and Resource

Kindly note that change of ownership can occur at any time during the procurement or during the contract period. However, due to this change, there were no modifications to the service nor the terms of the RFP. Hence, no violation has made in the government procurement process. • Sabre Ltd.'s sale of its Air Centre business to CAE Inc., a reputable

Selected bidder had not been properly evaluated about the going concern of the bidder. As well the company should call re-bid as per the Government Procurement Guidelines.

Management system, had sold the business activity relating to the bid to a another company at the evaluation stage, and this matter had not been taken into consideration.

Canadian company with expertise in various industries, led to a change in the ownership structure. • SLA has duly informed on this transition of ownership to CAE Flight Services USA, to the final procurement authority. Due to this change of the ownership, the business has transferred entirety, and same has only resulted a name change.

(c) The Attorney General had instructed the company to not to include eight Clauses in the master agreements of the Automated Crew Scheduling and Resource Management system and the CUPP system since clauses are unfavorable to the Company. However, the Company had signed the master agreements without removing the unfavorable clauses.

Hon. Attorney General has highlighted several observation points on both systems in his observation. SLA made revisions to the clauses in the agreement in accordance with the said observations and sought to renegotiate the said clauses of the agreement. Following a series of discussions with both vendors, parties agree on majority of points of the proposed revisions and were included in the final agreements. SLA has carried out extensive negotiations with the vendor on remaining clauses.

Investigation should be carried out regarding the responsible officers those who deal with the signing of agreements without following the Attorney General instructions.

(d) After expiration of the contract agreement, the company had continuously obtained the service of one system and paid service rentals amounting to Rs.127.82 million without extending the contract period or without entering into a new the agreements.

The highlighted system is crucial business application for airlines in order to carry out daily operations. Hence, there is no possibility that SLA can operate without an active system while the new system being implemented.

Immediate action should be taken to rectify the issue.

Required procurement approvals and extensions depending on the existing agreement have been done and payments have been properly authorized and paid.