

1.1 Opinion

The audit of the financial statements of the Civil Aviation Authority of Sri Lanka (“Authority”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of profit or loss, 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 2019, 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 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 Auditor's Responsibilities for the Audit of the Financial Statements

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 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) <u>Sri Lanka Accounting Standard No.16 – Property, Plant and Equipment</u>		
(i) According to Section 51 of the standard and the accounting policy No. 4.8 to the financial statements of the Authority, the useful life and scrap value of the fixed assets should be reviewed annually. If there is any difference should be adjusted in the accounts in terms of Sri Lanka Accounting Standard No.08. However, the Property, Plant and Equipment valued at Rs.1,672,783,311 owned by the Authority had not been reviewed by the end of the year under review.	The Civil Aviation Authority was shifted to a partly constructed Head Office Building in March 2018. Construction of the building was completed at the end of year 2019. It was difficult to carry out the asset revaluation process until assets were placed at its exact locations. Hence revaluation of assets has been planned to carry out within 2020. Unfortunately plans had to be dragged due to difficulties faced with the current pandemic situation. Revaluation of Assets has been rescheduled to complete before 31 st December 2021.	The useful life of fixed assets should be reviewed annually in terms of the Standards.
(ii) The Authority had not revalued the fully depreciated assets at a cost of Rs.93,116,589 and a land at a cost of Rs.5,329,200, which have been utilizing by the Authority.	Apply the answer given above	Action should be taken to revalue the assets.

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| <p>(b) The Authority had obtained a land at Weerawila for 30 years lease term from the Government in 2014, for the construction of Quarters. However, action had not been taken to identify the asset as leasehold land even as at 31 December 2019 as per SLRFS 16.</p> | <p>An advice was sought from Institute of Chartered Accountants of Sri Lanka (ICASL) on application of provisions in SLFRS 16 to Weerawila land, which had been leased from the government to obtain more clarification on unclear areas. ICASL informed that they are having separate technical document for transactions in this nature and instructed to make a written request with supporting documents to advice further on this. Since the given time is not sufficient to make amendments to the Financial Statements 2019, relevant disclosures will be made to the Financial Statements 2020 if recommended by the ICASL.</p> | <p>Accounting treatment for lease hold land should be done as SLFRS 16.</p> |
| <p>(c) As per paragraph No. 34 of LKAS 26 – Accounting and Reporting by Retirement Benefit Plans, information on the assets (investments) made on behalf of the retirement benefit obligation had not disclosed in the financial statements for the year under review.</p> | <p>Separate investment has already been made and information on investments in relation to retirement benefit obligation has been disclosed in schedules to the Financial Statements 2019.</p> | <p>Information on investments for retirement benefit obligation should be disclosed in notes to the financial statements.</p> |

1.5.2 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
Even though allowances should not be paid without obtaining the approval 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	Action is taken to obtain approval from the Department of Mgt. Services in regard to the Allowance paid to the Managers. However, this allowance is approved by the Board of Directors under the powers vested with the Authority in terms of the Act No.34 of 2002 under section 7 Section 18 (2) (1) (b). Due consideration has been paid in regard to the extended working hours, responsibility that the Managers hold on their assigned duties together with	Approval of the Department of Management Services should be obtained for granting extra allowances to the officers.

Rs.14,002,204 had been incurred by the Authority for the year ended 31 December 2019.

the market rates utilized for the emoluments of the similar ranked officials in the Civil Aviation Industry when deciding on this Managerial Allowance. Despite many reminders the matter has not been finalized yet due to ill functioning of responsible Ministries/Departments under the prevailing pandemic situation. However, this matter has referred to the Board and the Board has decided to discontinue the payment until the proper approval is obtained.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
The Value Added Tax (Input Tax) receivable from Inland Revenue Department in relation to the purchases up to 31 December 2019 was Rs.233,926,423. Even though several discussions were held with the Inland Revenue Department for deduction of this tax receivable, final decision had not been taken. It is observed that the recoverability of this amount is doubtful. However, no provisions had been made in the financial statements in this regard.	<p>Department of Inland Revenue has already finalized and issued Refund Assessments for following periods</p> <ol style="list-style-type: none"> From year 2003 to year 2013 (before RAMIS) Some of the refunds had already been received in cash or settled off against income tax or VAT dues except the refunds in the attached list. This office noticed and confirmed with the IRD that there is a delay in refund arrangements due to systems limitations after implementation of RAMIS. They have verbally agreed to settle all dues sooner. 1st quarter of 2016 (After RAMIS) Audits have been started by IRD to verify VAT documents from 2nd quarter 2016. 	A final decision should be taken by having discussions with the relevant parties of Inland Revenue Department to recover the receivable.

Therefore, provisions had not been made as there was no uncertainty of refund as per the IRD communications. Please note that IRD is not providing any written evidence for these transactions although requested.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a profit amounting to Rs. 1,348,801,346 as compared with the corresponding profit of Rs. 1,300,143,061 of the preceding year, thus observing an increase in the financial result by Rs. 48,658,285. This improvement had mainly been attributed by the increase in the surcharge on foreign sales.

2.2 Trend Analysis of major Income and Expenditure items

	2019 (Rs. Mn)	2018 (Rs. Mn)	Variance (Rs. Mn)	%
Operating Income	2,288	2,162	126	06
Overseas Sales Surcharge	1,989	1,859	130	07
Service Charge of Embarkation Levy	222	218	04	02
Income from regulatory services	77	85	(08)	(09)
Non- Operating Income	216	198	18	09
Interest Income	199	179	20	11
Other Income	17	19	(02)	(10)
Staff Expenses	333	312	21	07
Administration and other Expenses	191	171	20	12

The following observations are made.

- As compared with the preceding year, the revenue of the year under review had increased by Rs.143,855,758 , equivalent to 6.1 per cent.
- The staff cost for the year under review amounted to Rs. 333 million whereas that value amounted to Rs. 312 million in the preceding year. That 7 percent increase had mainly been attributed by the increase in the payment of salaries and wages by Rs. 28 million.
- The administrative and other expenses of the year under review was Rs. 191 million whereas the same had been Rs. 171 million in the preceding year. That increase had been mainly attributed by the increase in payments by Rs. 13 million made for contributions to International Civil Aviation Organization (ICAO).

2.3 Ratio Analysis

	2019	2018
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Current Ratio	1.6:1	2:1
Equity Ratio	63%	64%

The following observations are made.

- i) The current ratio of the year 2018 was 2:1 which was reduced to 1.6:1 by the end of the year under review. This is mainly due to deterioration in investment in treasury bills by Rs. 475 million and increase in trade payables by Rs. 476 million.
- ii) As per the movement of assets, equities, and liabilities, the total assets had increased by Rs. 966 million equivalent to 17 per cent whilst equities had increased by Rs. 531 million representing 14.82 per cent, and total liabilities had increased by Rs. 434 million or 21.7 per cent in the year 2019 comparing to the year 2018.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
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(a) Ownership of Batticaloa airport had been transferred to the Authority through the extra ordinary gazette no. 78/1973 dated 01 July 2016 and the authority had capitalized those land and buildings to the amount of Rs.472.6 million and Rs.38.4 million respectively based on the valuation report dated 14 Aug 2017 provided by the Valuation Department. However, transfer of those assets to the name of the Authority had not been made up to 31 December 2019.	Batticaloa Airport lands are already vested to CAASL on 1/7/2016. It is the ownership transfer done through the gazette. Administrative proceedings in registration in the land registry are in progress. At the same time since Sri Lanka Air Force is also in operation in one part of the Batticaloa Airport process had been delayed till a settlement is made on the demarcations. During the year 2019, through the Ministry of Defence an agreement has been made on the civil operation area and now the survey plans are completed. Administrative process of Registration in the name of CAASL is in channel and most of the work which is yet time consuming have been done in the year 2020.	Ownership of land and buildings of Batticaloa Airport should be transferred to the name of Authority.

- (b) Revaluation and transferring ownership of the properties of Ratmalana, Palali and Bandaranaike International Airports had not been completed even by 31 December 2019, though those airports had been transferred and vested to the authority as per Extra Ordinary Gazettes dated 26 September 2019 and 21 December 2017.

Palai, BIA, and RMA have also been vested to CAASL in the year 2017. Palai airport lands has been vested as per the government decision on developing Palai as a Domestic Airport. Some of the lands around the Palali airport are not even cleared yet by the government from the private owners. As a result no demarcation on the boundaries are marked in the vesting gazette. Therefore prior to registering the lands with the land commissioner, the government has to clear the lands which belong to the civil airport and demarcate the boundaries. At the same time since the said land is still under the control of Sri Lanka Air Force, policy decisions at Ministerial level has to be obtained in order to demarcate the boundaries to set up the survey plans.

BIA related survey is in progress since two years now on Airport and Aviation Services Ltd. request to the Dept. of Survey. CAASL also has requested the Dept. of Survey to draw a plan on the BIA lands yet in process. AASL being the user of lands for a long period of time the information of the boundaries are with them. CAASL has further requested the same information to proceed.

RMA related lands are also to be cleared with SLAF. On the request of CAASL, the Dept of Survey started surveying the RMA lands for which SLAF objected. Hence the policy decisions are awaited on the civil

Ownership of land and buildings of Ratmalana, Palali and Bandaranaike International Airports should be transferred to the name of Authority.

and military operations of RMA in order to proceed with the surveying process.

However all these vesting of lands are the transfer of ownership. Hence there is no need of transferring the ownership again to CAASL.

However administrative process in obtaining a certificate in the name of CAASL is in progress, which involve lot of time.

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| <p>(c) Having identified 18 areas encompassing all the operations of the Authority, key performance indicators had been introduced accordingly. However, performance reports had not been prepared in accordance therewith.</p> | <p>Performance Reports had prepared and sent to the ministry as per a format given by the ministry. However, a review mechanism in progress as per the Auditor General's Guidelines.</p> | <p>It is necessary to measure the performance, based on key performance indicators, review the reasons for deviations, and take remedial actions.</p> |
| <p>(d) Civil Aviation Authority had agreed to pay Rs.650 million to Sri Lanka Airforce (SLAF) as cost of relocation the hangers and parking areas of Ratmalana Airport as per the cabinet decision No. CM / 17 / 2896 / 709 /109 dated 21 February 2018. As mentioned in the Note 4.4, an amount of Rs.430 million had paid to SLAF by 31 December 2019 and included that amount under Capital work in Progress. However, a specific asset represents by that amount own by the CAASL couldn't be identified in audit.</p> | <p>Specific Asset had been identified in year 2020 after making the final payment and accounted accordingly.</p> | <p>A specific asset represents by that amount own to the CAASL should be identified.</p> |
| <p>(e) The audit carried out by the International Civil Aviation Organization in the year 2018 had pointed out 70 issues for the Authority to focus their attention</p> | <p>Corrective Action Plans (CAPs) have been filed for all relevant findings (70) in UOSAP-CMA web site in a timely manner and ICAO has reviewed them and</p> | <p>Corrective action plans should be prepared in a timely manner, and the management should take action to implement them properly.</p> |

on, and a corrective action plan should have been prepared with respect to those issues and furnished to the said Organization within the specified period. The progress of submission of 33 findings is below 50 percent and the overall progress of submission Corrective Action Plans is 69 percent as at the end of year under review.

3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
Though 04 Nos of procurement activities are planned to commence and complete in the year 2019, these activities had not been commenced within the year 2019.	<ul style="list-style-type: none"> Construction of Circuit Bungalow - Bandarawela As the development of Airport at Bandarawela has not been finalized and unavailability of land such construction will not be commenced. Developments at No.9 Quarters Due to the situation prevailed and the advice of the government to reduce costs in the SoEs, the renovation was not processed during the year 2019. Developments at Weerawila Bungalows With the advice of the line Ministry to stop the procurement for selecting a party to hand over the management of the bungalows and due to the curtailed operation of the bungalows, this task was not processed. 	Procurement Activities should be carried out as planned in a timely manner.

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
The post of Director of the Aircraft Registration and Airworthiness, a technical division of the Authority, remained vacant since July 2018.	Initially the post of Director/ARAW felt vacant in 2018 June and in the same month the post was advertised through papers. Interview was held on 19th October 2018. The chosen applicant was over 60 years of age and the papers were sent to the Line ministry for obtaining Cabinet approval. The process was not carried forward. Since there was no response again the post was advertised in June 2019. With the announcement of the Presidential Election and the advice by the government recruitment process was stopped. Once again the post was advertised in September 2020 and the interview was held on 30th December 2020 and suitable person has been selected for the post.	Key management positions should be filled for the smooth functioning of the Authority.