

Airport and Aviation Services (Sri Lanka) Ltd - 2010

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Airport and Aviation Services (Sri Lanka) Ltd. had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Airport and Aviation Services (Sri Lanka) Ltd. as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended, relating to Government Grants for capital expenditure.

1:2 Comments on Financial Statements

1:2:1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Interest totalling Rs.7,382,051 paid on the delays in the payment of compensation for lands acquired during the year under review had been shown under the lands in the balance sheet.
- (b) A test check revealed that following expenditure totalling Rs.13,562,314 had been brought to accounts in the development project expenditure to the Fixed Assets Accounts without paying attention to the expenditure relating to the projects. Thus it was not possible to be satisfied in audit

with regard to the accuracy of the value disclosed in each Fixed Assets Account.

<u>Fixed Assets</u>	<u>Item of Expenditure</u>	<u>Amount</u> Rs.
Lands	Obtaining electricity supply to Rodrigowatta	119,970
	Waste Water Disposal System	8,236,915
Buildings	Unutilised funds for works	2,561,145
	Hire of bulldozers for daily works	146,988
	Salaries of trained and untrained Drivers	122,338
	Hire of Trucks and Generators	293,976
	Rocks testing	1,041,232
	Land preparation	1,039,750
		----- 13,562,314 =====

1:2:2 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

Instances of non-compliance observed, during the course of audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions -----	Particulars -----
(a) Section 11 of the Finance Act, No 38 of 1971	A sum of Rs.108,000,000 out of the Government Grants had been invested in Treasury Bills without obtaining the concurrence of the Minister in charge of Finance.
(b) Section 2.9 of the Procurement Guidelines of 2006 of the Democratic Socialist Republic of Sri Lanka	Despite the approval of the award of the contract for the construction of the Mattala Airport to a contractor nominated by the Cabinet of Ministers for deviating from the Procurement procedure, a sum of Rs.237,500 had been paid as procurement Committee allowance to 25 officers who participated in the price negotiation discussions.

1:2:3 **Lack of Evidence for Audit**

The following items of accounts could not be satisfactorily vouched in audit due to non-availability of evidence indicated against each item.

<u>Particulars</u>	<u>Value</u> Rs.	<u>Evidence not made available</u>
(a) Expenditure on "Soorya Mangalya"	500,000	Dates of publicity made, details of programmes, details of expenditure, compact discs, etc
(b) Construction of a Road from Andarawewa to Pahala Mattala	28,800,000	File relating to the construction contract and certificates of work done.
(c) Air Travel Costs	308,635	Report on the Special Study of the Duty Free Shopping Complex of Dubai Airport as required to be submitted after the foreign tour.

2. Financial and Operating Review

2:1 Financial Results

According to the financial statements presented, the operations of the Company for the year under review relating to the Government Grants for capital expenditure had resulted in a net deficit of Rs.1,037,743 as against the net surplus of Rs.7,194,308 for the preceding year, thus indicating a deterioration of Rs.8,232,051 in the financial results.

2:2 Transactions of Contentious Nature

Even though the following constructions and installations had not been completed according to the specifications, the final payment and the retention money had been fully paid to the contractor during the year 2006. Nevertheless, the Engineer's Project Completion Report had been issued only in July 2007.

Name of Project -----	Contract Value		Amount certified and paid	
	Foreign	Local	Foreign	Local
	----- Rs.	----- Rs.	----- Rs.	----- Rs.
Passenger Terminal Building B-1	5,042,624,067	1,968,670,442	5,042,624,067	1,968,670,442
Civil and Utility Works A	1,176,308,721	567,374,104	1,176,308,721	567,374,104

Despite the release of all payments and retention money relating to the above contract, payments had been made during the year under review relating to the following Customs Duties and the Pay As You Earn Tax based on the Interim Payment Certificate of the contract.

Name of Project	Interim payment Certificate	Amount claimed	Amount paid
-----	-----	-----	-----
		Rs.	Rs.
Civil and Utility Works A	A-36	7,131,649	7,131,649
Passenger Terminal Building B-1	B-1-37	67,454,268	67,454,268
	B-1-38	64,074,866	23,414,083
			(As an advance)

			98,000,000
			=====

Therefore, it was not possible to ensure the accuracy of the payments in audit due to the non-availability of the reasons for making payments during the year under review for the Interim Payment Certificate issued in the year 2007 that is after elapse of 04 years since the completion of the contract.

2.3 Assets Management

Funds made available by the Treasury for the Special Projects on the Development of the Airport had been retained in two Bank current accounts of the Company for over one year and as such the following cash balances in those accounts were observed as idle assets.

<u>Current Account</u> -----	<u>Balance</u> -----
	Rs.
A	19,526,750
B	3,037,318

2:4 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) A specific allowance or a limit on the reimbursement of travelling, subsistence and hotel bills had not been approved for the officers participating in the observations relating to the project for the construction of the Mattala International Airport and as such a sum of Rs.9,235,012 had been spent out of the Treasury funds for the reimbursement of travelling, subsistence and hotel bills as the subsistence allowances for the years 2008, 2009 and 2010.

<u>Year</u>	<u>Reimbursement of</u> <u>Subsistence Allowance</u> <u>Rs.</u>
2008	1,542,016
2009	3,700,514
2010	3,992,482

	9,235,012
	=====

- (b) A Project Operating Unit had not been established and a suitable Director assigned with the responsibility for the certification of the work done had not been appointed for the operation and supervision activities of the project for the construction of the Second International Airport at Mattala at an estimated cost of Rs.24,244 million.

2.5 Acquisition of Lands

Advances totalling Rs.33,813,795 paid to various Divisional Secretaries during the period from 1997 to 2008 for the acquisition of lands for different development activities of the Company had been shown as advances and deposits even in the financial statements for the year under review.

Date of Payment	Divisional Secretariat	Amount
-----	-----	-----
		Rs.
31 December 1997	Katana	2,083,648
16 December 1998	Gampaha	4,718,000
18 July 2000	Mount Lavinia	834,118
12 February 2008	Mount Lavinia	24,178,029
22 February 2008	Katana	2,000,000

		33,813,795
		=====

Even though the delays in the acquisition of lands and the settlement of advances was referred to in the audit report for the preceding year as well, action had not been taken even during the year under review to call for progress reports on the payments made by the Divisional Secretariats and settlement of the advances and monitoring the acquisition of lands.

3. **Systems and Controls**

Special attention is needed in respect of the following areas of control.

- (a) Acquisitions of Lands
- (b) Contract Administration
- (c) Reimbursement of Customs Duty and Taxes