Airport and Aviation Services (Sri Lanka) Limited - 2015

The audit of financial statements of the Airport and Aviation Services (Sri Lanka) Limited ("the Company") for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

This report is issued in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in Basis for Qualified Opinion paragraph (paragraph 2.2), the financial statements give a true and fair view of the financial position of the Airport and Aviation Services (Sri Lanka) Limited as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Basis for Qualified Opinion

The statement of financial position includes property, plant and equipment relating to the Mattala Rajapaksha International Airport (MRIA) with a carrying amount of Rs.26,564,560,367 as at 31 December 2015. There had been a downturn in the operations of MRIA from commencement and presently flight movements are limited to two airlines with passenger movements declining from 2,620 in January 2015 to 349 in May 2016. I consider these to be indicators of impairment in accordance with **LKAS 36, Impairment of Assets**, as the economic performance of MRIA had deteriorated at the date of this report with full potential of the airport not expected to be realized in the near future. However, management had not carried out an impairment assessment to check whether there is any indication that MRIA may be impaired, on the basis of it being a separate cash generating unit, and thereby had not carried out an impairment test to determine whether any impairment write down should be applied to the amounts recorded in the statement of financial position as at 31 December 2015. In the absence of information to assess the recoverable amount of the property, plant and equipment of MRIA, I am unable to satisfy myself as to the carrying amount of such property, plant and equipment as at 31 December 2015.

2.3 Accounting Deficiencies

The following accounting deficiencies are observed.

(a) Total cost of Rs.43.5 million relating to 03 completed constructions had not been capitalized and recorded in the fixed assets register even though these assets are available for use. Further, the depreciation thereon amounting to Rs.3.5 million had not been provided in the financial statements for the year under review.

(b) Three items valued at Rs. 59 million had been included in Goods – in Transit Account although they had already been received by the Company as at the end of the year under review and they were also physically available in the premises.

(c) Adjustments valued at Rs.6,676 million had been made through 145 journal entries after submission of the draft financial statements to audit. Therefore, the possibility of prevailing any further deficiencies and/or adjustments outside the sample cannot be ruled out in audit.

2.4 Accounts Payable

Payable balances aggregating Rs. 13 million were outstanding for more than one year as at the end of the year under review. However, no action had been taken to clear them even up to the end of the year under review.

2.5 Non – compliance with Laws, Rules, Regulations and Management Decision, etc.

Instances of non-compliance with the following Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non- compliance
a) Section 6 of the Companies Act, No. 07 of 2007	The Company required publishing its name in public documents by adding the suffix "(Private) Limited" or the abbreviation "(Pvt) Ltd", after re-registration under the new Companies Act. However, the Company had not complied with this.
b) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka - Financial Regulation 395 (c)	Bank reconciliation statements should be prepared before 15th of the following month. However, it had not been complied for with regard to ten (10) bank accounts.
c) Letter of Deputy Secretary to the Treasury No: PE/COMC/33/02 dated 28 April 2006	- Lands and buildings, other movable and immovable assets owned by the Government had not been valued. - Shares to the Government of Sri Lanka for the net assets which transferred to the Company had not been issued.
d) Public Enterprises Circular No.PED/12 dated 02 June 2003 on Public Enterprises Guidelines for Good Governance	
(i) Section 7.4.5	Annual Board of Survey and Special Boards of Survey had not been appointed to carry out verification of assets.

(ii)	Section 9.2 (d)	The Organization Chart and the approved Cadre of the Company had not been registered with the Department of Public Enterprises, General Treasury.
(iii)	Section 9.3.1 (i)	A Scheme of Recruitments and Promotions (SOR) of the Company had not been approved by the Ministry concerned with the concurrence of the General Treasury.

e) Minutes of the Meeting held on 07 May 2015- Item (d)	All journal entries exceeding Rs.10 million should be approved by the Head of Finance before processing them. However, four journal entries exceeding Rs.10 million with a cumulative value of Rs.1,334,050,000 had not been approved by the officer concerned.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company had resulted in a pre-tax net profit of Rs.816,855,571 as compared with the corresponding pre-tax net profit of Rs.3,411,715,156 in the preceding year, thus indicating a deterioration of Rs.2,594,859,585 in the financial result for year under review. Exchange loss on financing activities amounting to Rs.3,525,237,920 incurred during the year under review was the main reason attributed for this deterioration in the financial results.

3.2 Value Addition

The value addition of the Company had been increased gradually from the year 2011 to 2014. However, in the year under review it had been decreased by Rs.2,389 million which is 17 per cent decrease as compared with the preceding year (Please see Annexure).

The Chairman had informed me that if the exchange loss impact is eliminated, total value addition had been increased by Rs.2,155 million as compared to 2014.

3.3 Analytical Financial Review

3.3.1 Significant Accounting Ratios

According to the information made available some important accounting ratios of the Company for the year under review and preceding four years are given below.

	2015	2014	2013	2012	2011
Current Assets Ratio (number of times)	2.09	1.95	1.29	1.79	2.65
Assets per Employee (Rs. ‘000)	16,865	15,105	15,316	14,378	10,972
Cost of Staff per Employee (Rs. ‘000)	1,417	1,088	1,135	1,020	942
Aircraft Movement per Employee (number of times)	15	14	14	14	13
Number of Passengers per Employee	2,197	1,979	1,995	2,055	1,859
Loading of Cargo – per Employee (Metric Tons)	57	53	52	54	51
Net Operating Cost per each Loading of Cargo (Rs. ‘000)	237	171	177	146	176

The following observations are made in this connection.

a) Increase in current ratio is mainly due to increase of investments in Treasury Bills under repurchase agreements by 76 per cent.

b) Net Operating Cost per each Loading of Cargo had been increased in the year under review by 39 per cent as compared with the preceding year.

4. Operating Review

4.1 Performance

The long term corporate objectives of the Company are given below.

i) Make Bandaranaike International Airport (BIA) a passenger transit hub of Asia Region by increasing the transit passengers to total passenger ratio to 1: 5 by 2018 from existing ratio of 1: 7.

ii) To establish infrastructure capacity to cater for 15 million passenger handling by 2019.

iii) To reduce the cost of service provision to landing aircraft of Bandaranaike International Airport (BIA) by 10 per cent by 2018 from the same of 2015.

iv) To increase number of passengers to 10 million by 2018.

v) To achieve a 40 per cent of transshipment cargo out of total aviation cargo by 2017.

vi) To be reasonably self-sustaining Civil Aviation Training Centre by earning at least US$ 0.5 million by year 2017 end.

vii) To maintain an upward trend in airport performance in the regional ranking.

viii) To maintain a downward trend in the contribution towards aircraft incidents.

ix) To ensure the safety of international civil aviation as specified in International Civil Aviation Organization (ICAO) document 8973.

x) Pursue service, value and operational excellence in corporation with all airport partners by maintaining a minimum score of 20 per cent for the customer perspective as well as for financial perspective measures in the Corporate Dashboard.

In this connection the following observations are made.

(a) The physical performance regarding the achievement of above Corporate Objectives (major operations) is given below.

Performance Indicator	2015	2014	2013	2012	2011
Number of International Flight Movements	56,156	54,960	51,972	48,416	43,454
Number of Passenger Movements	8,505,740	7,780,724	7,330,421	7,079,920	6,145,532
Cargo Movements (Metric Tons)	220,422	209,607	194,020	186,618	168,577

(i) Although the number of international flight movements had been gradually increased during the preceding 05 years, the trend of increase had been reduced from 27.5 per cent in the year 211 to 2.2 percent in the year 2015.

(ii) Number of passengers had been drastically increased since the year 2011 to 2015. However, the increasing trend was reduced from the year 2011 to 2013 and there was a marginal increase in this trend during the period of 2013 to 2015. In the meantime, the cargo movements had been decreased in the year under review by 2.8 per cent.

(b) Performance of the Mattala Rajapaksa International Airport (MRIA) built under a foreign loan of US$190 million.

Performance Indicator	2015	2014	2013
Number of Passenger Movements	6,291	40,386	36,137
Number of International Flight Movements	1,044	2,890	1,451
Cargo Movements (Metric Tons)	19	221.9	64
Total Income (Rs.)	71,430,816	136,264,763	48,010,898
Total Operating Expenditure (Rs.)	2,288,694,851	2,228,465,247	1,776,140,280
Operational Loss (Rs.)	2,217,264,035	2,092,200,483	1,728,129,382
Finance Expenditure (Rs.)	881,966,545	637,001,196	377,169,000
Net Loss (Rs.)	3,099,230,580	2,729,201,680	2,105,298,382

Accordingly, it was observed that the performance of the Mattala Rajapaksa International Airport (MRIA) is severely deteriorating during the year under review as compared with the preceding year.

4.2 Management Weaknesses

The following observations are made.

(a) The contract of implementation of an Enterprise Resource Planning (ERP) System had been awarded to a private Company on 29 June 2012 to complete within a period of 08 months for an amount of Rs.248.6 million. The Company had paid a sum of Rs.27,464,632 to the contractor and the contract period had also been extended in four instances. Even though the period exceeding 04 years had elapsed since the award of the contract, the contractor had failed to complete the project duly even up to 31 October 2016.

(b) A land had been purchased from a private party by spending a sum of Rs.7 million comprising a payment of Rs.5.6 million in the year 2002 and Rs.1.4 million in the year 2003. Subsequently, Divisional Secretariat, Katharagama had informed that this land is belonged to the Government. Thereafter, the land had been obtained on a 30 years lease basis with effect from 10 January 2008 for an annual lease rental of Rs.460,000.

Nevertheless, the Company had failed to recover the sum of Rs.7 million paid to the private party in 2002 and 2003. Further, recoverability of this money was in uncertainty.

4.3 Human Resources Management

The following observations are made.

(a) Four Deputy Divisional Heads had been appointed as acting to the posts of Heads of Divisions for a period ranging 01 to 05 years up to 10 May 2016 without being filled these posts permanently.

(b) Staff cost per employee had increased from the year 2011 up to the year under review from Rs.942,000 to Rs.1,417,000 without the approval from line Ministry and General Treasury.

5. Systems and Controls

The deficiencies observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

	Control Area	Observations
(a)	Human Resource Management	Cadre and Scheme of Recruitment were not approved by the Ministry concerned with the concurrence of the General Treasury.
(b)	Accounting	There was no an aggregated comprehensive accounting system in the Company.
(c)	Receivables and Payables	Long outstanding balances remaining in the accounts without been cleared or/and settled.
(d)	Asset Management	Board of Survey and asset valuation not performed.

Annexure

Description	2015 (Rs.Mn)	2014 (Rs.Mn)	2013 (Rs.Mn)	2012 (Rs.Mn)	2011 (Rs.Mn)
Profit after Tax (before payment of dividends)	817	3,412	3,554	2,738	1,389
Add :-					
Employee Remuneration	5,658	4,729	4,170	3,515	3,114
Dividends paid to Government	350	497	750	795	1,009
Taxes paid to Government					
- Income Tax	1,561	2,211	1,192	1,121	751
- BTT/NBT	-	-	-	-	19
- Custom Duty	36	34	45	117	66
- VAT	579	504	409	403	412
Other Duties	39	39	19	19	19
Depreciation	2,630	2,633	1,751	1,011	1,135
Total of Value Addition	**11,670**	**14,059**	**11,890**	**9,719**	**7,914**