

## **Civil Aviation Authority of Sri Lanka - 2015**

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The audit of financial statements of the Civil Aviation Authority of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of profit and loss, 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 read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 14(4) of the Civil Aviation Authority of Sri Lanka Act, No.34 of 2002. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management 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 management 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**

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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 consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). 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 judgement, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of financial statements in order to design audit procedure that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2:1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Civil Aviation Authority of Sri Lanka as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) Even though the land with the assessed value of Rs.46,000,000 granted to the Authority by the Government should be credited to the Government Grants Account, only a sum of Rs.23,950,008 out of that amount had been credited to the said Account while a sum of Rs.22,049,992 had been credited to the Revaluation Reserve Account.
- (b) Import tax of Rs.282,448 pertaining to two motor vehicles transferred to the Authority by the United Nations Development Programme had only been debited to the Motor Vehicles Account.
- (c) A sum of Rs.4,906,741 receivable from two institutions involved in the Centenary Celebration held by the Authority in the year 2012 had not been brought to account.

#### **2.2.2 Accounts Receivable**

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The Value Added Tax receivable to the Authority as at 31 December 2015 amounted to Rs.65,340,654 and the Department of Inland Revenue had agreed to deduct a sum of Rs.21,676,129 in the payment of tax and it had not agreed to refund the receivable balance of Value Added Tax amounting to Rs.43,664,525. As such, the recovery of that money was uncertain.

### **2.3 Non- compliance with Laws, Rules, Regulations and Management Decisions**

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The instances of non-compliance with laws, rules, regulations and management decisions are given below.

#### **Reference to Laws, Rules, Regulations and Management Decisions**

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#### **Non-compliance**

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- (a) Civil Aviation Authority Act, No.34 of 2002
  - (i) Section 9

The Minister may by Order published in the Gazette, transfer to and vest in the Authority the

Aerodromes specified in the Second Schedule and the aeronautical facilities and the land appertaining thereto specified in the Third Schedule. Nevertheless, action had not been taken even by 31 December 2015 to identify and transfer the items specified in the Third Schedule which should be so transferred and vested.

(ii) Sections 12(1) and (2)

Even though it was specified that the Authority shall established a Fund for the income and the income earned should be credited to that Fund, the Authority had identified a separate Revenue Heads in the preparation of its financial statements.

(b) Public Enterprises Circular  
No.PED/12 of 02 June 2003

(i) Section 4.2.2

Even though performance reports, operating statements, cash flow statements and age analysis reports should be presented monthly to the meetings of Board of Directors, action had not been taken according to that requirement.

(ii) Section 7.4.5

Even though a physical verification on fixed assets should be carried out , such physical verification had not been carried out in respect of fixed assets during the year 2015.

(c) Financial Regulations of the  
Democratic Socialist Republic of  
Sri Lanka  
F.R.1646

Originals of Monthly Performance Summaries along with the Daily Running Charts pertaining to the pool motor vehicles of the Authority had not been presented monthly to the Auditor General.

(d) Treasury Circular No.IAI/2002/02 of  
28 November 2002

A Register on Computers and Computer Accessories had not been maintained.

(e) Procurement Guidelines-2006  
Paragraph 5.4.12

Monthly reports on Value Added Tax paid relating to the year under review in terms of the guideline had not been presented to the Commissioner General of Inland Revenue with copy to the Auditor General.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2015 amounted to a surplus of Rs.871,287,793 as compared with the corresponding surplus of Rs.812,077,415 for the preceding year, thus indicating an improvement of Rs.59,210,378 in the financial result of the year under review as compared to the preceding year . Improvement in the operating income by Rs.106,143,558 despite the increase in operating expenditure and tax expenditure by Rs.15,103,518 and Rs.31,829,662 respectively had impacted mainly on the above improvement in the financial result.

In analyzing the financial results of the year under review and the four preceding years, a continuous financial surplus had been shown from the year 2011 up to the year 2015. In considering the employee remuneration, Government Tax and depreciation for non-current assets, the contribution amounting to Rs.561,100,000 of the year 2011 had increased continuously up to Rs.1,415,400,000 in the year under review.

### **4. Operating Review**

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#### **4.1 Performance**

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According to the Civil Aviation Authority of Sri Lanka Act, No.34 of 2002, the objectives of the Authority had been to achieve or exceed safety and security outcome targets, to be appropriately resourced, to be professional and competent, to attain wide credibility and recognition, to sustain or enhance its achievements, to achieve the highest level of productivity in everything being done, to maintain high degree of compliance with the International Standards and Recommended Practices and to be a strong facilitator for planning and development of civil aviation.

The following observations are made with regard to the performance.

- (a) According to the Performance Reports, aircraft movements of the Authority had shown a 20 per cent progress during the year under review as compared to the year 2012 while the progress of inspections relating to the civil aviation monitoring had been at a weak level.
- (b) According to the Summary Report of Public Safety issued by the International Civil Aviation Organization, Sri Lanka had secured the 19<sup>th</sup> place out of 191 countries in the year 2015. Nevertheless, out of the 8 components included in this report, Performance Based Navigation Component was a Red Mark. Vacation of post by the officer trained for the operation of Performance Based Verification System and the delay in the preparation of Performance Based Navigation System by the Airport and the Aviation Company had been the main reasons therefor.

#### **4.2 Management Activities**

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The following observations are made.

- (a) Even though 18 sections covering all operating activities of the Authority were identified and the corresponding Key Performance Indicators had been introduced, the Performance Reports had not been prepared accordingly.
- (b) According to Section 20 of the Lease Agreement No.420 of 10 February 2011 relating to the Head Office building, it had been stated that the initial agreement was valid for a period of two years. Further, it was stated that if the lessee wishes to extend the agreement period for two more years, the agreement should be renewed. However, action had not been taken to renew the relevant agreement even by 31 December 2015.

#### **4.3 Transactions of Contentious Nature**

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The Circuit Bungalow at Weeravila belonging to the Authority completed at a cost of Rs.43,563,226 had been assigned to a private institution by the Authority without recruiting a Circuit Bungalow Keeper. As such, a sum of Rs.2,250,000 had been spent on management and maintenance during the year under review.

#### **4.4 Transactions not supported by adequate Authority**

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According to the letter No.DMS/1748 of 09 April 2015 issued by the Ministry of Finance, a Commercial Pilot License is required to obtain special allowances amounting to Rs.235,000 and Rs.225,000 for the posts of the Director – Air Navigation Services and the Director – Aerodromes respectively. Nevertheless, contrary to that, a sum of Rs.2,300,000 had been paid as special allowances to the Air Traffic Controller License holders.

#### **4.5 Idle and Underutilized Assets**

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The building 1,200 square feet floor space constructed at a cost of Rs.45,043,723 in the premises of Maththala Airport had been underutilized and only two officers were employed in the service therein.

This office facility had been constructed with a view to providing adequate service required in case of any operation of the Maththala Airport and the Chairman had informed me that as a result of the non-operation of the airport as expected, it remained underutilized.

#### **4.6 Resources of the Authority given to other Government Institutions**

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Three printers and three computers valued at Rs.324,000 belonging to the Authority had been given to the line Ministry.

#### **4.7 Staff Administration**

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Twenty three vacancies including 10 posts in the Senior Executive Level and 13 posts in the Executive Level existed in the Authority. Instead of filling the above vacancies through making promotions or new recruitments by the Authority, 12 retired officers had been recruited on contract basis and salaries and allowances totalling Rs.21, 168,508 had been paid for the year 2015. The management had not taken action to recruit officers on permanent

basis and produce experienced officers through training, thus it was observed in audit that this situation will adversely affect the going concern of the Authority.

**5. Systems and Control**  
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Weaknesses in Systems and Controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of Systems and Controls</b> -----	<b>Observations</b> -----
(a) Staff Management	Recruitment on contract basis instead of permanent basis
(b) Fixed Assets	Failure to carry out the Annual Physical Verification and failure to report the fair value of assets.
(c) Internal Audit	Permanent Internal and Assistant Audit Staff had not been maintained.
(d) Performance	Non-preparation of reports in accordance with the Main Performance Indicators.