

Civil Aviation Authority of Sri Lanka – 2016

The audit of financial statements of the Civil Aviation Authority of Sri Lanka for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Chairman of the Authority on 12 July 2017.

1.2 Management’s Responsibility for the Financial Statements

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

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.

2. Financial Statements

2.1 Opinion

In my opinion, 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 2016 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

2.2.1 Accounting Deficiencies

Instead of valuation and accounting for the market value of two motor vehicles transferred on 16 July 2014 to the Authority by the United Nations Development Programme, only the import duty of Rs.282,448 had only been debited to the Motor Vehicles Account. As such, assets had been understated as at the end of the year under review.

2.3 Accounts Receivable

The Input Value Added Tax pertaining to purchases, receivable by the Authority as at 31 December 2016 amounted to Rs.59,504,356. Even though discussions were held with the Department of Inland Revenue on the recovery of this amount, a final conclusion had not been reached up to date and as such, the recovery of that money was uncertain.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Civil Aviation Authority Act, No.34 of 2002 Section 9	
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	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 2016 to identify and transfer the items specified in the Schedule which should be so transferred and vested.
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| <p>(b) Section 11.2.6 of the Staff Rules and Administrative Procedure of the Authority.</p> | <p>Subject matters and uses gained by participating in an international conference, meetings, a workshop or training should be explained within 30 days after returning, by the officer who participated representing the Authority to all officers individually or collectively, who deal with such subject matters and a report thereon should be kept with that officer. Nevertheless, the Authority had not followed that procedure.</p> |
| <p>(c) Public Enterprises Circular No. PED/12 of 02 June 2003
Section 4.2.5</p> | <p>Even though an age analysis report on items receivable to and payable by the Authority should be furnished monthly to the Board of Directors, those reports had not been furnished.</p> |

2.5 Transactions not supported by Adequate Authority

According to the decision taken at the meeting of the Cabinet of Ministers held on 10 February 2016, the approval had been given to incur expenditure from the Fund of the Authority subject to a maximum of Rs.20 million as a cost on hosting the Fifty Third Conference of the Directors General of Civil Aviation of the Asia Pacific Region. However, an amount of Rs.2.3 million exceeding the approved amount had been incurred from the Fund of the Authority.

3. Financial Review

3.1 Financial Results

The operations of the Authority for the year under review had resulted in a surplus of Rs.881 million as compared with the corresponding surplus of Rs.871 million for the preceding year, thus indicating an improvement of Rs.10 million in the financial result of the year under review as compared with the preceding year . Even though the expenditure on staff, administration and other, had increased by Rs.63 million, the increase in the income from operating and non-operating activities by Rs.81 million had impacted the above improvement in the financial result.

An analysis of the financial results of the year under review and 4 preceding years, revealed that the surplus of Rs.523.4 million in the year 2012 had continuously improved to Rs.881.1 million in the year 2016. After readjusting the employees remuneration, tax paid to the Government and the depreciation on non-current assets to the surplus of the Authority, the contribution amounting to Rs.792.8 million in the year 2012 had increased continuously to Rs.1,493.4 million in the year 2016.

3.2 Analytical Financial Review

The following observations are made.

(a) The total income of the year 2016 amounted to Rs.1,660 million and that indicated an improvement of Rs.81 million or 5 per cent as compared with the year 2015. Out of the total income, a sum of Rs.1,233 million or 74 per cent had been contributed from the Foreign Sales Surcharge generated without a direct attempt.

(b) Material Ratios and Percentages for the year under review and the preceding year are given below.

	2016	2015
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Net Profit to Turnover Ratio	53%	55%
Employees Cost to Turnover	14%	12%
Current Ratio	2.8:1	3.1:1

Even though the employees cost to turnover had decreased in the year 2013 as compared with the year 2012, it was observed that it had gradually increased from the year 2014 to the end of the year under review.

4. Operating Review

4.1 Performance

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.

(a) The following functions included in the functions and duties stated in the Civil Aviation Authority of Sri Lanka Act, No. 34 of 2002 had not been performed during the period of the year under review.

(i) As the Authority should assist the Minister in the formulation of the National Aviation Policy of Sri Lanka, the Authority had initiated preliminary activities several years ago for the formulation of a National Aviation Policy. However, it was at the Draft level even by 31 December 2016.

(ii) The Authority was unable to prepare an Aviation Development Plan for Sri Lanka due to the delay in formulation of the National Aviation Policy.

(b) Performance of the Aviation Security Section

According to the approved cadre of the Authority, there should be 8 officers including the Director in the Aviation Security Division, comprising the Director, 2 Senior Civil Aviation Inspectors and 5 Civil Aviation Inspectors. Out of the aforesaid posts, only one Senior Civil Aviation Inspector and one Civil Aviation Inspector had been employed in the service as at 31 December 2016. Even though 4 trainee Aviation Inspectors had been recruited in the year under review, an annual training period should be given for absorbing them to the permanent service. As such, functions which should be performed by 07 officers, had been practically performed by 02 officers. The following observations are made in respect of the Progress of Surveillances in the year under review and 4 preceding years.

- (i) Even though it had been mentioned in the Annual Investigation Plan that the number of inspections which should be carried out for the years 2015 and 2016 in the Bandaranaike International Airport by the Aviation Security Section stood at 26 and 31 respectively, number of actual inspections carried out stood at 18 and 24 respectively.
- (ii) Even though it had been planned to carry out 4 Tests per year from the year 2013 to the year 2016 relating to Tests, only one out of those Tests had been carried out during the relevant years.
- (iii) Even though it had been planned to carry out 06 and 04 Internal Operating Inspections and Night Inspections respectively in the year 2014, out of them, only 2 Tests each had been actually carried out. After the year 2014, relevant Tests had not been planned.
- (iv) Number of inspections planned to be carried out in the Maththala Mahinda Rajapaksha International Airport in the years 2015 and 2016 stood at 12 and 4 respectively and the number of actual inspections carried out stood at 6 and 1, thus, indicating a decrease in the number of planned and actual inspections in the year 2016 as compared with the year 2015.

(c) Performance of the Air Navigation Services Section

In the examination of planning of surveillance and achievement of those plans from the year 2012 to the year 2016 in this Section, it was observed that planning and implementation had been made so as to reduce the Aeronautical Information Service Inspections (AIS) gradually during the period from the year 2014 to the year 2016.

(d) Performance of the Aerodrome Section

According to surveillances carried out in the year under review and 4 preceding years, a total number of 36 surveillances comprising 24, 06 and 06 should be carried out in the Katunayake, Maththala and Ratmalana Airports during the year 2016. Nevertheless, 20, 05 and 04 surveillances had been carried out in the Katunayake, Maththala and Ratmalana Airports respectively in the year 2016, thus indicating a decrease in surveillances actually carried out in the year 2016.

(e) Performance of the Airworthiness Section

The following observations are made.

- (i) Out of 215 inspections planned in the year 2016 to ensure the airworthiness, 42 inspections or 19 per cent could not be carried out.
- (ii) In considering the period from the year 2014 to the year 2016, a decrease in the planning and implementation of inspections carried out by the Airworthiness Section of the Authority, was observed due to review of the Policy on carrying out air inspections.

(f) Performance of the Main Operations Section

According to the information made available to Audit, it was observed during the course of the study on the performance of the Main Operations Section of the Authority in the year under review and four preceding years that the arrivals of airplanes to Sri Lanka and air operations had gradually increased from year to year. However, there was no improvement in the progress of inspections relating to the Civil Aviation Regulation.

4.2 Management Activities

The following observations are made.

- (a) Even though the Authority had expected to obtain a sum of Rs.13 million from sponsors for the Fifty Third Conference of the Directors General of Civil Aviation of the Asia Pacific Region, only a sum of Rs.9 million had been received. Accordingly, action had not been taken up to 31 December 2016 to obtain a sum of Rs.4 million from sponsors to the Authority.
- (b) Even though the Sri Lanka Air Force had informed the Authority that the construction of the Batticaloa Airport which was expected to be completed and used for domestic air travel in the year 2016 had been completed on 24 June 2016 and can be made use of for air travel, necessary action had not been taken to open it and commence the air travels even by March 2017. Further, the expenditure of Rs.18,973,363 incurred up to 31 December of the year under review by the Authority for construction thereof, had not been reimbursed by the Ministry of Transport and Civil Aviation.

- (c) According to the Finance Act, No.25 of 2003, the Director General had the authority to determine the rate of exchange of the Dollar subject to the approval of the Treasury. Even though the annual average rate of exchange per Dollar for the years 2015 and 2016 had been Rs.135.18 and Rs.145.93 respectively, it had been computed as Rs.130 and Rs.140 per Dollar respectively in the charge of Embarkation Tax. As such, the income pertaining to 2,524,216 air tickets on which the Embarkation Tax had been paid from April to December 2016, had been under computed by Rs.446,886,322. Further, final determination on the rate of exchange relating to the charge of Embarkation Tax had been taken on 26 October 2015 and that amounted to Rs.140 per Dollar. Action had not been taken thereafter to change the rate of exchange.
- (d) According to the Order issued in terms of Section 2(1) of Part I of the Finance Act, No.25 of 2003, the value recommended by the Minister of Finance as the Embarkation Tax to be charged for January and February 2017 was US\$ 50 per ticket and a sum of Rs.140 had been charged as the Rupee value per Dollar. However, average rate of exchange for January and February 2017 had been Rs.150.45. In the charge of the Embarkation Tax, the market rate of exchange had not been made use of and as such, the Levy charged on a ticket in January and February had been under computed by Rs.522. As such, the value of under collection of the Tax from 658,452 air tickets itself, sold during 2 relevant months amounted to approximately Rs.272,732,919.
- (e) 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 had been stated that in case the lessee wishes to extend the Agreement for two more years, the agreement should be renewed. Even though 6 years had elapsed after signing the initial agreement, action had not been taken to renew the relevant agreement even by the end of the year under review.
- (f) According to the State Safety Report issued by the International Civil Aviation Organization (ICAO) in the year 2010, Sri Lanka received nineteenth place from among 191 countries. However, it had been proposed that the safety audit carried out by the International Civil Aviation Organization targeting the member countries to be carried out for Sri Lanka from 04 to 14 June 2018.

4.3 Operating Activities

The following observations are made.

- (a) The International Civil Aviation Organization (ICAO) had recommended at the audit carried out in the year 2010 to rectify 80 weaknesses which should be rectified relating to each Section of the Authority. The final conclusions relating to 3 out of 7 major weaknesses, that is, to signing an agreement with the countries of the Region, entering into a proper legal agreement with the Department of Meteorology, the Airport and the Aviation Services Company and the Establishment of a qualitative methodology by the Organizations which provide weather data had not been reached even by the end of the year under review.

(b) Even though 13 Sections covering all operating activities of the Authority had been identified and corresponding Key Performance Indicators had been introduced, Performance Reports had not been prepared in conformity therewith.

4.4 Transactions of Contentious Nature

In terms of the Letter No. DMS/1748 of 09 April 2015 of the Department of Management Services, the Commercial Pilot License (Fixed Wing/Rotary Wing) is required to obtain Technical Allowances relating to three officers who serve in the post of Director of Air Navigation. Nevertheless, a total sum of Rs.7,080,000 comprising Rs.235,000, Rs.130,000 and Rs.225,000 per month had been paid as Technical Allowances for 12 months during the year 2016 to the Air Traffic Controller License holders without the Commercial Pilot License.

4.5 Contract Procedure

The construction of the Head Office Building at an estimated cost of Rs.803,369,988 had been commenced in December 2015 and a physical progress and financial progress of 76 per cent and Rs.610,561,191 respectively had been expected by 31 December 2016. Nevertheless, the physical progress and the financial progress had only been 38 per cent and Rs.305,280,595 by that date and as such, the expected level had not been reached. Moreover, it had been revealed that construction works of this building which was scheduled to be completed on 13 June 2017 are being carried out by the contractor in a sluggish manner. The relevant contract period had been extended by 3 ½ months up to 30 September 2017 at the request of the contractor and according to the Cabinet Memorandum No. CM/17/1019/709/041 of 7 June 2017. As such, a sum of Rs.13,045,851 would be paid as an additional rent at the rate of Rs.3,727,386 per month relating to that period for the building which is used by the Authority at present. It was observed in audit that this amount is an additional cost which is to be incurred by the Authority due to delay in construction.

4.6 Resources of the Authority given to other Government Institutions

Three printers and 3 computers valued at Rs.324,000 belonging to the Authority had been given to the Line Ministry in the year 2011.

4.7 Staff Administration

There were 10 vacancies comprising 02 posts at the Senior Executive Level and 08 posts at the Executive Level in the staff of the Authority over a number of years. Ten retired officers had been recruited and deployed in the service on contract basis instead of filling above vacancies by giving promotions to the officers in the staff or by new recruitments to the Authority. A total sum of Rs.30,857,888 had been paid to them as salaries and allowances for the year 2016. Even though action had been taken to fill vacancies by extending the service period of these officers from year to year, action had not been taken to recruit officers on permanent basis and to place the officers in relevant posts through trainings given by the Authority itself. It is the audit point of view that this situation would have an adverse impact on the going concern of the Authority.

5. Good Governance and Accountability

5.1 Budgetary Control

Significant variances ranging from 36 per cent to 64 per cent were observed between the estimated and the actual income and expenditure thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies 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.

Areas of Systems and Controls

Observations

(a) Fixed Assets Control	Failure in revaluation and updating the Register of Computers.
(b) Budgetary Control	Existence of variances of high level.
(c) Staff Administration	Making recruitment on contract basis without recruiting on permanent basis.
(d) Accounting	Failure in fulfilling the requirements of Accounting Standards.