

Civil Aviation Authority of Sri Lanka - 2020

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Civil Aviation Authority of Sri Lanka (“Authority”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, 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 2020, 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 Audit Scope

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 Audit Observations on the preparation of Financial Statements

1.5.1 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
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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 Rs.14,050,000 had been paid by the Authority for the year ended 31 December 2020.	Considering the Audit observation CAASL is in the process of obtaining Cabinet Approval for the payment of Managerial Allowance, though the powers are vested to the Authority on the remuneration paid to the staff. Meantime as per the decision of the Board of Directors, payment is continued, considering the powers vested for the CAASL through Act No 34 of 2002, until cabinet approval is obtained.	Approval of the Department of Management Services should be obtained in granting new allowances to the officers as per paragraph 9.7 of the Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a profit amounting to Rs.237,151,840 as compared with the corresponding profit of Rs. 1,348,801,346 of the preceding year, thus observing an decrease in the financial result by Rs. 1,111,649,506. This deterioration had mainly been attributed by the decrease in the operating income from Rs.2,288,452,284 in the previous year to Rs.803,216,822 in the year under review by Rs.1,485,235,462 due to Covid 19 Pandemic.

2.2 Trend Analysis of major Income and Expenditure items

	2020 (Rs. Mn)	2019 (Rs. Mn)	Variance (Rs. Mn)	%
Operating Income	803	2,288	(1,485)	(65)
Overseas Sales Surcharge	680	1,989	(1,309)	(66)
Service Charge of Embarkation Levy	61	222	(161)	(73)
Income from regulatory services	62	77	(15)	(19)
Non- Operating Income	183	216	(33)	(15)
Interest Income	168	199	(31)	(16)
Staff Expenses	354	333	21	06
Administration and other Expenses	185	191	(6)	(3)

The following observations are made.

- As compared with the preceding year, the total income for the year under review had decreased by Rs.1,517,846,213 equivalent to 60.6 per cent due to Covid 19 pandemic.
- Interest income has been decreased by 16 per cent during the year under review due to the reduction in interest income on treasury bills by 48 per cent.

2.3 Ratio Analysis

	2020	2019
Current Ratio	1.7:1	1.6:1
Equity Ratio	62%	63%

3. Operational Review

3.1 Human Resources Management

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) As per the paragraph 18.3.2(b) of Authority's Administration Manual (SLCAP-5000), the transport and mobility allowance may be revised by the Authority at a percentage of not more than 10 per cent in the interval of not less than five years taking into	Arrears payment has been made as per the provisions available in the Administrative Manual (SLCAP 5000) as there was an entitlement for revision of the allowance though it had not taken place on time. Therefore the Board of Directors has	Considering the poor financial health of the Authority due to Covid – 19 pandemic, actions should be taken to reduce the costs.

account the inflation and financial health of the Authority. However, a sum of Rs.9,286,520 had been paid as transport allowance arrears from the year 2016 to 2020 as per the board decision taken on 23 June 2020 without considering the poor financial health of the Authority due to Covid – 19 pandemic.

decided to revise the Transport Allowance from the due date.

Budgetary provisions were available for this payment, and CAA made a profit during the particular year. Hence CAA decided to make this routine payment considering the financial difficulties of the staff. CAA will not make this payment if there was a financial loss.

(b) Profit after tax for the year under review had been decreased up to Rs.236,772,763 from Rs.1,348,801,346 for the preceding year, by Rs.1,112,028,583 or 82.5 per cent. As per the performance report, performance in every sector had been got down due to pandemic situation. Further, due to lock-down of the country and the specific areas in time to time, staff of the Authority had been allowed to stay at home and work from home. However, the Authority had paid normal leave encashment of one month salary to the staff for the year under review amounting to Rs.10,428,105 without considering those situations and it was 37 per cent or Rs.3,928,028 increment comparing to the preceding year. It is observed that the decision was contentious and could not be justifiable.

Having followed the Administrative Manual (SLCAP 5000) provisions, the Leave Encashment has been implemented with the due authorizations for the payment.

Budgetary provisions were available for this payment, and CAA made a profit during the particular year. Hence CAA decided to make this routine payment considering the financial difficulties of the staff. CAA will not make this payment if there was a loss.

Considering the poor financial health of the Authority due to Covid – 19 pandemic, actions should be taken to reduce the costs.