

**Civil Aviation Authority of Sri Lanka - 2013**

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The audit of financial statements of the Civil Aviation Authority of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement 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 read in conjunction with the 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 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 Audit Evidence 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 2013 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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Even though the purchase of motor vehicles valued at Rs.28,280,000 had been expected during the year under review, no transactions involving even incurring a commitment had taken place. Nevertheless, the value of motor vehicles had been shown as goods in transit and the liability thereon had been shown under the current liabilities.

##### **2:2:2 Lack of Evidence for Audit**

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The following items could not be accepted in audit due to the non-submission of the evidence indicated against each item.

	Item -----	Value -----	Evidence not made available -----
		Rs.	
(a)	Repairs to Motor Vehicles	1,042,108	Originals of bills, reports of motor mechanics and the originals of receipts in support of payment.
(b)	Expenditure on Transport of School Children to Mattala	360,000	Particulars of schools participated in the tour letters of confirmation from the Principals of the respective schools, number of Children and registered numbers of the buses used for transport.
(c)	Transport of People in Puttalam and Chilaw areas for a meeting and in cost of their food.	494,000	Reasons for the free transport of people, the need for incurring this expenditure by the Civil Aviation Authority of Sri Lanka, reasons for the free supply of food, the registered numbers of the buses used for transport and the number of persons transported.
(d)	Lectures on Awareness of Air Zones concept for High Officials	337,500	List of names of Officers participated, types of their degrees, the University, National Identity Card Numbers, Private Addresses, etc.

**2:3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Finance Act, No.38 of 1971 (i) Section 10(5)	Even though the balance income remaining after appropriations should be credited to the Consolidated Fund, the accumulated profits from the year 2003 to the year under review had not been credited to the Consolidated Fund as prescribed. Action had not been taken to credit to the Consolidated Fund the profit for the year under review after appropriations amounting to Rs.585,512,555.
(ii) Section II	Sums totaling Rs.801,046,519 had been invested in 19 instances the year under review without the prior or covering approval of the Treasury.
(b) Public Administration Circular No.26/92 of 19 August 1992	Even though the State Emblem and the name of the Institution should be painted on all motor vehicles other than those allocated, it had not been so done in respect of 04 motor vehicles.
(c) Procurement Guidelines of the Government Section 2.14.1	Even though the approval of the Ministry Procurement Committee should be obtained in terms of Procurement Guidelines of the Government for transactions exceeding Rs.50 million, it had not been so done in the procurement

of a building for the Authority on rent for Rs.106,021,080.

(d) Public Enterprises Circulars

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(i) Circular No.PED/39 of 09 October 2006.

(i) Fuel Valued at Rs.1,681,798 had been supplied in excess of the limit prescribed in the circular to 04 Senior Officers of the Authority.

(ii) In Addition to the official motor vehicle allocated to the Director General, a sum of Rs.685,315 had been spent in the year under review on another motor vehicle released for his private purposes.

(ii) Circular No.PED/12 of 02 June 2003  
Section 9.12

A sum of Rs.,7,538,843 had been spent in the year under review contrary to the circular provisions to obtain hospital and surgical full insurance cover for the employees of the Authority and all members of their families. The annual insurance premium for the insurance cover ranged between Rs.38,400 to Rs.60,600 per employee.

(e) Section 111 (a) of the Inland Revenue Act, No.38 of 2000 and Budget Proposals of 2011

Even though the Pay As You Earn Tax on the Salaries and other earnings of the employees of the Civil Aviation Authority should be paid from their personal salaries, the Pay As You Earn Tax in respect of the 06 years from the year 2007 to the year 2013 totalling Rs.16,995,279 had been paid from the Fund of the Authority.

(f) Public Administration Circular  
No.14/2008 of 26 June 2008

(i) Contrary to the Circular provisions transport allowances had been paid at Rs.30,000 per month to 11 Senior Executive Officers, Rs.20,000 per month for 41 Executive Officers and at Rs.13,250 per month to 85 others including Office Aides who were not entitled to officials motor vehicles. The total transport allowances paid contrary to the Circular instructions in the preceding year and the year under review amounted to Rs.28,348,259 and Rs.27,794,875 respectively.

(ii) Contrary to the Circular provisions, fuel allowances totaling Rs.2,470,194 comprising Rs.543,994 at Rs.22,680 per month to two officers, Rs.1,787,500 at Rs.19,440 per month to further 08 officers and Rs.138,700 at Rs.14,440 per month to yet another officer who are not entitled to official motor vehicles had been paid.

(g) Management Services Circular No.49 of  
24 December 2012

Even though bonus equivalent to a maximum of Rs.10,000 could be paid in accordance with the circular, contrary to such provision bonus equivalent to the basic monthly salary of each employee had been paid during the year under review. The total bonus so paid amounted to Rs.3,405,591.

- (h) Public Enterprises Circular No.95 of 14 June 1994
- (i) Contrary to the Circular provision and without the formal approval a special monthly allowances at Rs.25,000 for 06 officers and at Rs.10,000 for one officer paid as a professional allowance during the year under review totaled Rs.1,895,000.
- (ii) The Senior Director had been paid a sum of Rs.17,625 per month for acting in the Post of the Director General. Even though he had been from the acting post with effect from May 2010, he had been paid acting allowance amounting to Rs.742,250 up to the end of the year under review.
- (i) Public Finance Circular No.446 of 01 September 2010
- The mobile phone bills ranging Rs.14,000 to Rs.60,000 per month of two officers in respect of the years 2010 and 2011 had been paid by the Authority. Such payments made exceeding the limits amounting to Rs.150,149 and Rs.6,846 had not been recovered from those officers even by the end of the year under review.
- (j) Treasury Circular No.IAI/2002/02 of 28 November 2002
- A separate Register of Fixed Assets had not been maintained for computers, accessories and software.
- (k) Presidential Secretariat Circular No.CSA/PI/40 of 28 February 2007
- The following expenditure had been incurred from the Fund of the Authority contrary to the Circular.

- (i) A sum of Rs.768,273 had been spent for accommodation and food provided from luxury hotels for the officers of the Civil Aviation Authority who participated to the opening ceremony of the Airport at Mattala
  
- (ii) A sum of Rs.2,747,241 had been spent for accommodation and food provided from luxury hotels for the officers of the Authority in connection with duty, seminars and workshops.

#### **2:4 Transactions not supported by Adequate Authority**

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Several salary increments had been granted in one instance to the Drivers and office Aides of Authority equivalent to about 5 per cent increase in their salaries without obtaining the Treasury approval.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the operations of the Authority for the year under review had been a surplus of Rs.813,671,859 as compared with the corresponding surplus of Rs.618,187,444 for the preceding year, thus indicating an improvement of Rs.195,484,415 as compared with the preceding year. The increase of operating income and the income from the supply of services had been the major impact for the improvement of financial results for the year under review.

#### **3:2 Analytical Financial Review**

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The increase of air passenger movements in the year under review as compared with the preceding year had resulted in the increase of income from foreign sales surcharge by 19.8 per cent and the increase of the expenditure during the year under review resulting from the



increase of expenditure on the staff and on foreign seminars and workshops had been 1.55 per cent.

#### 4. Operating Review

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##### 4.1 Performance

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The following observations are made.

- (a) According to the information made available to audit, an analysis of the progress of the main operating activities of the year under review as compared with those of the two preceding years are given below.

Item	Particulars	2013	2012	2011
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(i) Aircraft Movements	• Chartered Flights	2,556	2,118	1,782
	• Regular Flights	48,413	46,616	41,891
(ii) Inspections Completed (Number)	• Air Navigation Services	01	01	01
(iii) Safe/Secure and supervision Activities performed	• Number of Ramp Inspections (Airworthiness)	-	-	65
	• Aerodrome	39	19	20
	• Dangerous Goods	09	18	35
	• Flying School Inspections (personal Licenses)	08	14	13
	• Station Facilities Operating	00	02	04

- Even though the aircraft arrivals and air operations in Sri Lanka had gradually increased annually, it was observed that the inspections relating to the regulation of civil aviation services had not been increased adequately.
- Even though the information on the courses of action taken by the Authority on the reporting of air accidents resulting during the course of air operations inspections carried out and minimization of such incidents was called for by the audit, no particulars whatsoever had

been made available to audit. As such an extensive analysis of the operating performance of the Authority could not be carried out.

(b) No-revision of Fees for Services provided by the Civil Aviation Authority

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The charges levied by the Authority for the various services performed by the Authority such as issue of Aircraft Pilot Licences, granting approval for Telecommunication Signal Towers, granting approval for high-rise buildings, etc., had been last revised in the year 2006 and the charges had not been revised over a period of 07 years.

The particulars of the fees and the issue and renewal of licences are given below.

(i) Fees Recovered

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Category of Licences	Basic Licence Fee	Evaluation Fee	Renewal Fee	Evaluation of Renewal
	Rs.	Rs.	Rs.	Rs.
Pilot-Student	690	500	345	250
Pilot – Private	1,380	500	690	250
Pilot - Commercial	4,140	1,500	1,035	750
Pilot - Air Transport	6,900	2,000	1,725	1,000
Air Traffic Control	1,380	500	345	750
Air Operating Engineer	2,070	1,500	-	-

It was observed that the charges levied for the above services are not adequate to meet the costs incurred by the Authority.

(ii) Issues and Renewal of Licences

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Category of Licences	2013	2012	2011	2010
Pilot-Student	231	155	115	142
Pilot – Private	110	94	98	76
Pilot - Commercial	339	264	317	300
Pilot -Air Transport	498	414	382	359

Air Traffic Control	26	44	81	91
Air Operating Engineer	05	113	173	283

(c) Aircraft Incidents

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Even though the information on the aircraft incidents reported to the Authority, the inspections carried out on those incidents, the files maintained by the Authority and guidelines issued and orders made by the Authority from time to time were called for in audit to issued ascertain whether the Civil Aviation Authority established for the regulations of Civil Aviation Services are executed effectively and according to the International Standards, any information whatsoever relating thereto had not been furnished and as such as analysis of the performance of the Authority could not be carried out.

**4:2 Management Inefficiencies**

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The following observations are made.

- (a) Instead of carrying out the new constructions and improvements relating to the building taken on rent for the Head Office of Authority through the owner of the building, the Authority had spent a sum of Rs.28,214,123 in that connection. Even though a sum of Rs.3.5 million out of that had been spent for the construction of a new building without the approval of the Municipal Council in the premises of the car park attention had not been paid to set off that expenditure against the building rent.
- (b) Action had not been taken for the recovery of the Value Added Tax amounting to Rs.32,688,455 overpaid compute the tax accurately over a period exceeding two preceding years due to the facture to.
- (c) Several instances of the violation of statutory laws, rules, revealed were pointed out in the previous Audit Reports, and even the Committee on Public Enterprises had expressed its concern to those matters. But it appears that the management had not paid attention to avoid such weaknesses.

#### 4:3 Transactions of Contentious Nature

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The following observations are made.

- (a) Sums totalling Rs.94,652 had been spent from the Fund of the Authority for the printing of visiting Cards for the officers of the staff of the Authority and for sending wreath to the funerals of family members of the staff.
- (b) According to the Scheme of Recruitment for the posts of Deputy Director (Aircraft) and the Deputy Director (Air Navigation) the possession of the Air Traffic Controller Licence is a compulsory requirement. But four officers with that qualification recruited and been paid Rs.1,200,000 in the year under review at Rs.25,000 per officer per month. Nevertheless, the Air Traffic controller Licences of those offices, to whom professional allowance is paid, had not been renewed over a number of years.
- (c) The Authority had spent a sum of Rs.525,200 for obtaining Hospital and surgical Insurance cover for 08 officers recruited on contract basis including 05 Directors and their families.
- (d) An officer recruited to the Ministerial staff had been granted a permanent appointment in the Authority while in active service in the Ministry. He had been paid Rs.3,051,897 on account of salary, fuel allowance, medical insurance cover and foreign travel expenses during the preceding years and the year under review, though he had not reported for service in the Authority even for a single day.
- (e) The Authority established solely for the purpose of regulating aviation services had recruited a Marketing Promotion Consultant on contract basis without the approval of the Department of Management Services, at a monthly salary of Rs.80,000. That officer had been paid a sum of Rs.1,328,294 during the year under review as salary, cost of foreign travel and other expenses though he had not reported for duty even on a single day.
- (f) The centenary celebration on Civil Aviation Services in Sri Lanka which fell in the year 2011 and not been held in that year, had been held at a cost of Rs.14,000,000 in the year 2012 without the co-operation of the line Ministry, the companies and other

institutions. But the expenditure amounting to Rs.1,320,000 incurred in the year under review is a contentious issue.

- (g) An agreement for the payment of a sum of Rs.330,000 had been signed with an external individual whose assistance had been sought for the preparation of in Financial Regulations of the Authority. The sum of Rs.66,000 paid in that connection in the year under review only had been brought to account.

#### **4:4 Uneconomic Transactions**

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- (a) An unfavourable clause requiring the Authority to pay the annual increase of rates had been included in the rent agreement entered into for the building taken on rent by the Authority and as such additional rates amounting to Rs.285,390 had been paid from the Fund of the Authority during the year under review.
- (b) The Civil Aviation Authority had held an open air workshop on the Creatively and Creative Thinking Concept in a luxury hotel in Giritale, Polonnaruwa and a sum of Rs.1,801,542 had been spent on accommodation, food and drinks and transport in this connection. The workshop of 6 hours duration had been held far away from the Colombo City. Action contrary to the Circular No.CSA/P1/40 dated 28 February 2007 of the Presidential Secretariat had been taken.

#### **4:5 Identified Losses**

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The following observations are made.

- (a) Even though a period of one year had elapsed in the year under review since the misplacing of a Multimedia Projector purchased for Rs.145,000 in the year 2010, prompt action had not been taken for the recovery of the loss from the officers responsible. Similarly, no disciplinary action had been taken against the officer for taking out the equipment from the Authority premises without proper authority.
- (b) An overpayment of income tax amounting to Rs.6,110,895 had been made in the year 2009/2010.

#### **4:6 Fruitless Expenditure**

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The Civil Aviation Authority had paid a sum of Rs.2,840,572 for the 09 officers who participated in the Fiftieth Conference of the Civil Aviation Services Directors General on the Asian and Pacific Zone held in Bangkok, Thailand. The following observations are made in this connection.

- (a) A sum of Rs.839,212 had been spent on the tour of three officers who did not possess the technical knowledge or professional qualifications in that field who could not provide any benefit to the country or the Civil Aviation Authority.
- (b) Three officers who participated including an officer on probation have since left the services of the Civil Aviation Authority and the Authority had incurred fruitless expenditure of Rs.874,644 as subsistence allowance, cost air travel tickets and incidental allowance.

#### **4:7 Resources of the Authority given to other Government Institution**

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The Authority had spent a sum of Rs.1,774,879 on account of sundry expenses of the Ministry contrary to Section 3.8.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003, while 05 motor vehicles and 07 officers of the Authority had been released to the Ministry. The Authority had spent during the year under review Rs.1,643,751 and Rs.3,125,074 as the cost of fuel and the repairs of those motor vehicles respectively while a sum of Rs.2,828,670 had been spent on the salaries and allowances of the officers.

#### **4:8 Staff Administrations**

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The approved cadre of the Authority had been 166 and 20 vacancies existed as at the end of the year under review. Out of that 19 vacancies related to Executive Grades.

### **5. Accountability and Good Governance**

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#### **5.1 Budgetary Control**

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Comparison of the estimated income and expenditure for the year under review with the actual income and expenditure revealed significant variances ranging from 180 per cent to

92.64 per cent, thus indicating that the budget had not been made use as an effective instrument of management control.

## **6. Systems and Controls**

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Deficiencies 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 area of control.

- (a) Accounting
- (b) Collection of Income
- (c) Inspections of Aircraft Incidents
- (d) Budgetary Control
- (e) Expenditure Management
- (f) Contract Administration
- (g) Staff Loans