

## **Civil Aviation Authority of Sri Lanka – 2017**

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The audit of financial statements of the Civil Aviation Authority of Sri Lanka for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 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 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. 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

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### 2.1 Opinion

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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 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.2 Accounts Receivable

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The following observations are made.

- a) The value of Value Added Tax receivable to the Authority as at 31 December 2017 amounted to Rs. 117.46 million. When comparing that balance with that of the preceding year amounting to Rs. 59.50 million, an increase of 97 per cent equivalent to Rs. 57.97 million was observed. It was observed that the said value had aggregated long-term due to lack of output tax in the Authority. Although discussions had been held with the Department of Inland Revenue on the recovery of the said sum, no conclusion was arrived at so far. As such, it was observed that the recovery of the said sum remained doubtful.
- b) The sum of Rs. 18.97 million incurred in the year 2016 on the construction of airport in Batticaloa by the Authority on reimbursement basis, had not been reimbursed by the Ministry of Transport and Civil Aviation even up to the end of the year 2017.

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

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The instances of non-compliances with Laws, Rules, Regulations, and Management Decisions, are as follows.

<b>Reference to Laws, Rules, Regulations, etc.</b>	<b>Non-compliance</b>
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a) Section 4.2 of the Public Enterprises Circular, No. PED1/2015, dated 25 May 2015.	State institutions should be provided with transport facilities subject to maximum of 100 Km for a return journey. However, as the Head Office of the Authority had been located in Katunayake, a bus had been used for the staff to travel from Dodamgoda to Katunayake over a distance of 188 Km at a daily fare of Rs. 16,800.
b) Section 06 of the Management Audit Circular, No. 01/2016, dated 01 January 2016.	It is necessary to furnish the initial report on vehicles pertaining to the Authority, and once furnished, the changes thereon should be submitted to the Department of Management Audit as per the Format prior to the 15 <sup>th</sup> day of the month following the end of each quarter. However, the Authority had not submitted that report in the year 2017.

- c) Section 08 of the Gazette Notification, No. 1550/7, dated 22 May 2008. A methodology to credit the surcharge on foreign sales charged by the Authority to the Consolidated Fund, had not been formulated even up to the end of the year under review. The surcharge on foreign sales credited in that manner to the account of the Authority in the year 2017, totaled Rs. 1,525.63 million.
- d) Gazette Notification, No. 2050/38, dated 21 December 2017. The Lands assigned for aeronautical facilities, relating to the airports in Katunayake and Ratmalana, and 07 other locations being used by the airline license holder at present, had been vested in the Civil Aviation Authority. Subject to the conditions determined by the Authority in terms of Section 88 of the Civil Aviation Authority of Sri Lanka Act, the said lands should again be handed over to the institutions supplying aviation services. However, it had not been so done even up to 30 April 2018.

### 3. Financial Review

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#### 3.1 Financial Result

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The overall operating result of the year under review had been a profit of Rs.1,042.91 million as compared with the corresponding profit of Rs. 881.14 million for the preceding year, thus observing an improvement of Rs. 161.77 million in the financial result. The said improvement had mainly been attributed by the increase in operating income by a sum of Rs. 304.31 million equivalent to 20 per cent, and the increase in the non-operating income by a sum of Rs. 29.02 million or 18 per cent as compared with the preceding year.

The examination on the values contributed to the national economy comprising operating profits, employee remuneration, and miscellaneous taxes relating to the year under review and 04 preceding years revealed that the contribution of the year 2013 amounting to Rs. 1,002.81 million had increased to Rs.1,792.98 million by the year 2017. The gradual improvement in the payment of employee remuneration and income tax had attributed thereto.

#### 3.2 Analytical Financial Review

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Quantitative ratios and percentages relating to the year under review and 04 preceding years, are given below.

	2017	2016	2015	2014	2013
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Net Profit to Turnover Ratio (Per Cent )	74	74	77	76	69
Cost on Employees to Turnover Ratio (Per Cent)	14	14	12	11	13
Current Ratio	2.2:1	2.85:1	3:1	3:1	2.4:1

Although a decrease in the cost on employees to turnover ratio was indicated in the year 2014 as compared with the year 2013, it was observed that the said value had gradually increased from the year 2014 up to the end of the year under review, whilst the current ratio of 3:1 for the year 2014 had gradually decreased from the year 2016.

Considering the variations in assets, equity, and liabilities, the total assets had increased by 33 per cent or Rs. 1,188.06 million whilst equity had increased by Rs. 668.14 million or 27 per cent in the year 2017 as compared with the year 2016. Total liabilities had increased by Rs. 519.92 million representing 45 per cent.

#### **4. Operating Review**

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##### **4.1 Performance**

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##### **4.1.1 Planning**

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The Authority had prepared a Corporate Plan for the 03 year period of 2016 – 2018 by planning to carry out the operations so as to achieve the proposed targets. Having identified 18 activities covering all the operations of the Authority for the year 2018, key performance indicators had been formulated in accordance therewith, but the Performance Report had not been prepared complying thereto.

##### **4.1.2 Performance and Review**

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According to the report of the Universal Safety Oversight Audit Programme issued by the International Civil Aviation Organization in the year 2010, Sri Lanka had been ranked number 19 among 191 countries.

As stated in the Civil Aviation Authority of Sri Lanka Act, No.34 of 2002, the Minister should be assisted by the Authority in the formulation of national aviation policy of Sri Lanka. Accordingly, a formulation of a national aviation policy had been commenced several years ago, but approval of the Cabinet had not been granted thereon even up to 31 December 2017. I was informed by the Chairman that an aviation development plan could not be developed due to non-availability of a national aviation policy.

##### **4.1.3 Performance of the Aviation Security Division**

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The following matters were observed in the progress of surveillances relating to the year under review and 04 preceding years.

- I. Despite being mentioned in the annual Surveillance Plan that the number of surveillance tests to be carried out in the years 2016 and 2017 by the Aviation Security Division of the Civil Aviation Authority, had been 47 and 32 respectively, the number of surveillance tests actually carried out had been 29 and 18.
- II. According to the aviation security programme, 03 tests had been planned for the year 2017, but no test whatsoever had been carried out.

## 4.2 Management Activities

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The following observations are made.

- a) According to the provisions set forth in Sections 55 and 56 of the Civil Aviation Act, No. 14 of 2010, a Board of Investigation had been appointed with respect to each incident in view of investigating the air accidents and reporting to the Civil Aviation Authority. Nevertheless, it had been emphasized in the audit report presented by the International Civil Aviation Organization in the year 2010 that an “Independent Aviation Safety Investigation Authority” be established in place of the said Board of Investigation. But, even by the end of the year 2017, the activities relating to the establishment of such an independent authority, remained at the preliminary stages.
- b) According to the Gazette Notification, No. 1973/78, dated 01 July 2016, the airport in Batticaloa had been vested in the Civil Aviation Authority. Although the land of the said airport had been assessed for a value of Rs. 495.82 million in the year 2017, and brought that value to accounts, the deeds of the land had not been obtained even up to 30 June 2018.
- c) The only applicant responded to the newspaper advertisement, dated 21 September 2017 relating to maintaining a flying school at the airport in Batticaloa, had been selected upon approval of the Cabinet. The business plan that should have been furnished by that institution to the Authority on or before 30 September 2017, had not been furnished even by 30 June 2018.

## 4.3 Operating Activities

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It had been recommended in the safety oversight audit carried out by the International Civil Aviation Organization (ICAO) in the year 2010 to rectify 80 weaknesses relating to each division of the Authority. According to the audit test check, 02 of the 07 weaknesses identified in the Air Navigation Service Division and Accident Investigation Division were as follows.

<b>Weakness</b>	<b>Recommendation for Rectification and Targeted Dates</b>	<b>Current Situation</b>
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i. Failure to prepare an opportunistic plan in respect of breakdown of flights to other countries of the region, breakdown of disruptions, and supporting services relating to aviation services.	To sign an agreement with other countries in the region to avoid the weakness as at 31 December 2011.	Despite being agreed with countries for the agreements, such agreements had not been signed diplomatically.

ii.	Failure of the party providing whether related data to establish a quality service in their institution.	To establish a methodology on quality prior to 31 December 2011.	It was not verified that the relevant methodology had been established in the Department of Meteorology.
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**4.4 Transactions of Contentious Nature**  
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Allocations on gratuity for the employees of the Authority for the year 2016 had been computed based on half of the monthly salary. However, in the year 2017, allocations for gratuity had been made based on monthly salary. As such, the Allocations for Gratuity Account relating to the year under review had been over calculated by Rs.14.30 million whilst a sum of Rs. 6.28 million had been overpaid to 06 officers in the year.

**4.5 Idle and Underutilized Assets**  
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The Civil Aviation Authority had constructed an office with an area of 1200 square feet within the premises of Mattala Airport by spending a sum of Rs. 45.04 million. However, due to decline in the operations of the Airport during the year 2017, that office remained underutilized.

**4.6 Uneconomic Transactions**  
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An engineering services consultancy firm had been assigned to supervise and provide consultancy services for the construction of new office building in Katunayake on the basis of paying a fee amounting to Rs. 24.40 million. Nevertheless, a civil engineer and an office assistant had been employed from January 2016 for the same purpose mentioned above paying a monthly allowance of Rs. 250,000. The expenditure of Rs. 8.77 million incurred on the two personnel up to March 2018 was observed to have been uneconomic.

**5. Sustainable Development**  
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**5.1 Achievement of Sustainable Development Goals**  
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Every public institution should act in accordance with the Year 2030 Agenda of Sustainable Development adopted by the UN. However, the Civil Aviation Authority of Sri Lanka had not been aware as to how to act on the activities coming under their scope in the year under review. Furthermore, no action had been taken to identify the sustainable development goals and targets relating to the activities of the Authority, the milestones in the achievement of those targets, and the indicators to evaluate the reaching of targets.

## **6. Accountability and Good Governance**

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### **6.1 Internal Audit**

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Even though a work plan had been prepared by the Internal Audit Unit of the Authority for the year 2017, an audit had not been conducted in a manner that the physical performance of the Authority had been sufficiently evaluated.

### **6.2 Deficiencies in Contract Administration**

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The following observations are made.

- a) It had been scheduled to complete the construction of the Head Office building in Katunayake by 13 June 2017. Furthermore, the duration for those activities had been extended up to 30 September 2017 in terms of Cabinet Decision, No. අම/17/1019/709/041, dated 07 June 2017. However, despite the failure to complete the constructions by 30 September as expected, the building had been occupied by the Authority in January 2018. Due to delays in the constructions, the additional expenditure incurred on lease rent for 03 months for the building in Hunupitiya in which the Head Office had been maintained since 01 October 2017, totaled Rs. 14.91 million.
- b) The Head Office building in Katunayake mentioned in “a” above had been declared open in January 2018, but, of the 22 main activities thereof, the three activities, namely, flag posts, boards, and terrace works had not yet been commenced up to 19 March 2018, whereas the completeness of 04 more activities had ranged between 15 per cent to 75 per cent.

### **6.3 Budgetary Control**

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The estimated cost on the construction of Head Office building amounted to Rs. 803.37 million. Constructions worth Rs. 281.22 million therefrom had been completed by 31 December 2016. Provision amounting to Rs. 760 million had been financed in the year under review with respect to the cost of Rs. 522.15 million to be further incurred thereon whereas a sum of Rs. 307.94 million equivalent only to 40 per cent of the amount provisioned, had been incurred in the year 2017. As such, a surplus allocation of 60 per cent equivalent to Rs. 452.06 million was observed between the amounts allocated and spent on the construction of the building.

## **7. Systems and Controls**

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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.

**Systems and Controls**

**Observations**

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a) Contract Administration

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Delays in constructions.

b) Monies Receivable

Delays in the recovery.

c) Control of Assets

Failure to take action to take over the lands after entering into an agreement.

d) Performance

Failure to carry out surveillances as planned.