

## **Civil Aviation Authority – 2018**

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### **1.1 Opinion**

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The audit of the financial statements of the Civil Aviation Authority of Sri Lanka for the year ended 31 December 2018 comprising the balance sheet as at 31 December 2018 and the profit and loss statement, 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 tabled in Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Authority as at 31 December 2018, 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**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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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 intends 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 Sub-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 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

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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 Institute 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 Financial Statements

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### 1.5.1 Internal Control over the preparation of financial statements.

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The Authority is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under the following headings.

### 1.5.2 Non-compliances with Sri Lanka Public Sector Accounting Standards

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Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
According to Section 51 of the Sri Lanka Accounting Standard, 16 and No. 4.8 of the accounting policy of the Authority, the useful life and scrap value of the fixed assets should be reviewed annually. Any difference, if any, should be adjusted in the accounts in terms of Sri Lanka Accounting Standard, 08. However, the Property, Plant and Equipment valued at Rs. 795,410,652 owned by the Authority had not been reviewed by the end of the year under review.	Your observation is agreed upon. Action will be taken in the year 2019 for revaluing the assets.	The useful life of fixed assets should be reviewed annually in terms of the Standard.

### 1.5.3 Transactions without Adequate Authority

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Description on the Transaction without Adequate Authority	Comment of the Management -----	Recommendation -----
<p>Payment of allowances is not allowed without approval of the Department of Management Services of the Treasury. However, following a decision taken by the Board of Management, a management allowance of Rs. 50,000 had been paid monthly to 27 officers in the managerial posts of the Authority with effect from May 2018.</p>	<p>Not agreed with your observation.</p> <p>According to the nature of the duties performed by the Senior Civil Aviation Inspectors and the Managers of the Authority, it is necessary to obtain their services outside of the working hours. As such, the Board of Management had decided to pay the said allowance enabling them to report to duty using their own vehicles.</p> <p>The said allowance comprises the allowance of Rs. 30,000 being given to them for using the own vehicle and the transport allowance of Rs. 20,000.</p>	<p>Approval of the Department of Management Services should be obtained in granting new allowances to the officers.</p>

### 1.6 Accounts Receivable and Payable

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#### 1.6.1 Accounts Receivable

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Audit Observation -----	Comment of the Management -----	Recommendation -----
<p>A sum of Rs. 152,208,634 remained receivable to the Authority as Value Added Tax on the purchases made up to 31 December 2018. Although discussions had been held with the Department of Inland Revenue on the recovery of the sum receivable as at 31 December 2017, no conclusion has been reached so far with respect to the recovery of the said sum.</p>	<p>Although discussions have been held continuously with the Department of Inland Revenue in this connection, no final decision has been taken.</p>	<p>A final agreement should be reached by having discussions with the relevant parties relating to the sum receivable.</p>

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

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Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
Letter, No. NP/SP/SDG/17 issued by the Secretary to the Ministry of National Policies and Economic Affairs, dated 14 August 2017.	Every public institution should comply with the “2030” Agenda on sustainable development adopted by the United Nations. However, the sustainable development goals, targets, milestones in reaching the targets, and the indicators to measure the achievement of targets, had not been identified.	Agreed with your observations. Action is being taken in this regard.	It is the responsibility of the management to take measures to fulfill the sustainable development goals and targets.

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the year under review was a profit amounting to Rs. 1,300,143,061 as compared with the corresponding profit of Rs. 1,042,914,458 of the preceding year, thus observing an increase in the financial result by Rs. 257,228,603. This improvement had mainly been attributed by the increase in the surcharge on foreign sales.

### 2.2 Analysis on Trends in the Items of Main Revenue and Expenditure

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The following observations are made.

- (i.) As compared with the preceding year, the revenue of the year under review had increased by Rs. 366,789,848 equivalent to 18.4 per cent.
- (ii.) The cost on staff of the year under review amounted to Rs. 312 million whereas that value amounted to Rs. 288 million in the preceding year. The increase in the cost on employees was 8 per cent as compared with the preceding year. The said increase had mainly been attributed by the increase in the payment of other allowances by Rs. 25 million.
- (iii.) The administrative and other expenses of the year under review totaled Rs. 171 million whereas the same had been Rs. 149 million in the preceding year. As compared with the preceding year, the increase in the administrative and other expenses was 15 per cent. That increase had been attributed by the increase in payments by Rs. 14 million made for obtaining external technical corporation.

## 2.3 Ratio Analysis

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The following observations are made.

- (i.) The current ratio of the year 2017 was 2.2:1 which was reduced to 2:1 by the end of the year under review.
- (ii.) As for the movement of assets, equities, and liabilities, the total assets had increased by Rs. 768,027,904 equivalent to 15 per cent whilst equities had increased by Rs. 445,904,311 representing 14.22 per cent, and total liabilities had increased by Rs. 322,123,592 or 19.2 per cent in the year 2018 as against the year 2017.

## 3. Operating Review

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### 3.1 Management Inefficiencies

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Audit Observation	Comment of the Management	Recommendation
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a) Having identified 18 areas encompassing all the operations of the Authority, key performance indicators had been introduced accordingly. However, performance reports had not been prepared in accordance therewith.	The relevant officers have been instructed to prepare performance reports heeding your observation.	It is necessary to perform the duties of the management such as, measure the performance based on key performance indicators, review the reasons for deviations, and taking remedial action.
b) The audit carried out by the International Civil Aviation Organization had pointed out 70 issues for the Authority to focus their attention on, and a corrective action plan should have been prepared with respect to those issues and furnished to the said Organization within the specified period. No corrective action plans had been prepared for 8 of the 36 issues pointed out by this audit in regard to air navigations services.	Agreed with your observation. Preparation of those corrective action plans requires coordination between other public and private institutions. Corrective action plans have been prepared for the other 28 issues, and action is being taken to implement those plans in coordination with the relevant institutions.	Corrective action plans should be prepared in a timely manner, and the management should take action to properly implement them.

### 3.2 Human Resource Management

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Audit Observation	Comment of the Management	Recommendation
<p>a) Constructions of the new office building of the Authority in Katunayake had been completed, and the office had been maintained there. However, it was observed that the Civil Aviation Officer (Aerodromes Standards) who had been released for consultancy of the constructions of the building, was acting in the post of Project Manager even up to 30 April 2019. As such, the post of Civil Aviation Officer (Aerodromes Standards) remained vacant.</p>	<p>Although the constructions of the new office building had been completed, the service of Mr. Kelum Weerawardana is required in the capacity of Project Manager as there exists minor defects to be repaired and payments need to be supervised. Accordingly, he has been released full time from the post of Civil Aviation Officer (Aerodromes Standards)</p>	<p>A period of 1 ½ years has lapsed since the date of making use of the building. It is not certain as to whether the service of a full time officer is required any more. The management should draw their attention in this connection.</p>
<p>b) The post of Director of the Aircraft Registration and Airworthiness, a technical division of the Authority, remained vacant since July 2018.</p>	<p>The post of Director of the Aircraft Registration and Airworthiness had fallen vacant on 2018.09.04. Advertisements were published on national newspapers on 2018.09.02 and 2018.09.03 calling applications for filling the vacancy along with advertisements published on the website of the Authority. Accordingly, 05 qualified applicants were called for an interview. As the applicant qualified for the post was above 60 years of age, his biodata was sent to the Ministry of Transport and Civil Aviation on 2018.11.05 in order to be reviewed by the Cabinet for his suitability.</p>	<p>It is the responsibility of the management to fill vacancies.</p>