

## **Airport and Aviation Services (Sri Lanka) (Private) Limited - 2022**

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### **1 Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Airport and Aviation Services (Sri Lanka) (Private) Limited (“Company”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, 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 Qualified Opinion**

My opinion is qualified on the matters described in paragraph 1.6 of this report.

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 qualified opinion.

#### **Emphasis of Matters**

- a) I draw attention to Note 2.1.1 to the financial statements which explains the basis for amalgamating the financial statements of the Company with the Government Grant for Capital Expenditure (Voted Fund) and the Retained Revenue Fund. Based on the Cabinet decision dated 17 August 2005, the Secretary to the Treasury has directed the Company on 09 February 2006 by his letter No.PE/GOCO/1/1 to value the land and building of airport presently owned by the Government and other movable and immovable assets held by the Company and taking over the liabilities relating to Airport Development then serviced by the Government of Sri Lanka and issue of shares to the Government of Sri Lanka for the net assets value.

Further, on the request of the Company on the implementation of above cabinet decision, Attorney General had advised to take a fresh Cabinet approval by his letter dated 08 February 2010, as it involves inter alia, transfer of lands and buildings of the airport(s) and all other movable and immovable assets presently owned by the Civil Aviation Authority and the Government of Sri Lanka respectively. However, no action had been taken by the Company to obtain a fresh Cabinet decision up to date.

Moreover, by the gazette notification of Minister of Transport and Civil Aviation dated 21 December 2017 under the Civil Aviation Authority Act No.34 of 2002, the Minister have vested and transferred

Katunayake Airport, Ratmalana Airport, Land, Buildings and Structures of Civil Aviation Training Centre at Rathmalana, the Aeronautical Communication Transmission Station at Attidiya, Radio Navigational Aids at Gampaha and Pamunugama, Radar Station at Pidurutalagala, Holiday Bungalow at Nuwara Eliya and Anuradhapura Land of 0.125 hectares to Civil Aviation Authority of Sri Lanka. Therefore, the ownership of lands and buildings used by the Company was doubtful in audit. However, only buildings of the Bandaranaike International Airport had been re-valued during the year under review and no action had been taken to complete the valuation and issue shares to Government of Sri Lanka to date.

- b) I draw attention to Note No.29 which explains material contingencies as at end of the year under review with termination of construction of phase 2 project as per the special letter dated 12 April 2022 under the heading “Interim policy regarding the service of Sri Lanka external debt issued by General Treasury.

Due to the non-submission of endorsement from Ministry of Finance regarding the capability of loan repayment as per the above decision, the constructor temporarily suspended the project. Therefore, there will be severe financial impacts to the Company, such as outstanding payments including delay charges to the constructor, cost of plant and material ordered with additional warehouse charges, cost for the care of works (safety, operational, environmental), cost for maintenance of incomplete work at the site, loss due to the deterioration of the material, cost of demobilization and fixed rentals of temporary works, constructors equipment, cost of repatriation of the contract staff and labour employed, any other contractors claims arising out of suspension and termination, possible litigation charges by the sub-contractors of TC which will be back charged by the main contractor, loss of income to the employer, loan utilization issue etc;

The total amount of contractor’s claims arising out of suspension have been submitted vide IPA 16-20 is converted to LKR 15,729,888,690 (JPY 6,352,071,405) which are under review by the consultant and yet to be certified due to termination in force with effect from 09 December 2022. However, the contractor is yet to submit termination claim (final claim) including the suspension claims.

My opinion is not modified in respect of these matters.

### **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 Company’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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

It is required to inform me the remedial actions proposed to take with regard to the matters pointed out in this report by the governing body of the Company within three months of the date of this report in terms of Section 39 of the National Audit Act No. 19 of 2018.

#### **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 skepticism 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 Company'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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation.
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company
- Whether the Company has performed according to its powers, functions and duties, and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Audit Issue	Management Comment	Recommendation
(a) As per the section 29 of the Sri Lanka Accounting Standards No. 01, each material item is required to be shown separately in the financial statements. However, a sum of Rs.536 million and Rs.358 million paid for the overtime and bonus respectively had not been shown separately.	There are many items within the Personnel expenses, paid to the staff including Bonuses and Overtime. Company discloses mainly statutory expense categories such as EPF, ETF, Gratuity, Directors remuneration under the Note Number 07 and all other staff related expenses around 25 categories are disclosed in general as “Staff Costs”.	Action should be taken to disclose material items separately in the Financial Statement.
(b) In terms of section 51 of the Sri Lanka Accounting Standard No 16, the residual value and the useful life of an asset shall be reviewed annually and, if expectations differ from previous estimates, the change shall be accounted for in accordance with Sri Lanka Accounting Standard No 8. However, the assets with carrying value of Rs.28,580 million relating to 7 categories as at 31 December 2022 had not been reviewed and accounted as required by the standards.	Considering the total assets base across all five international airports and related locations, it is highly impractical to carry out annual reviews and assessments of each asset as imposed in the Accounting Standard. However, to address this concern, company has already initiated re-valuation process across all fixed assets category wise. As a part of this plan BIA buildings valuation had already been completed, residual values and useful life times had been amended and fully accounted for the year ended 31 <sup>st</sup> December 2021 after obtaining the approval of the Board of Directors. The rest of Fixed Assets	The management should take action to comply the Sri Lanka Accounting Standards No.16

reviewing and valuation process is in progress under the close supervision of the Audit and Management Committee (AMC).

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| (c) | <p>Four (4) projects with aggregate value of Rs.5, 011 million had been used for operating activities of the Company during the year under review. However, the cost of the projects had been shown as work-in-progress in the statement of financial position, instead of capitalized and depreciated as required by the paragraph 55 of Sri Lanka Accounting Standard No.16</p>                                 | <p>Rehabilitation of Apron and East Taxiway - RMA</p> <p>a) Construction of Chain link Fence - Attidiya</p> <p>b) Proposed Container at Health Office and Staff Toilets- RMA</p> <p>c) Remote Apron Taxiway – BIADP Package B</p> | <p>Variation including price adjustments finalized at the end of 2022 and will be capitalized during the year 2023.</p> <p>Will be capitalized during the year 2023</p> <p>- Do -</p> <p>Variations and claims of the Contractor had to be settled and it took considerable time and right now it is in the final phase.</p> | <p>In terms of Sri Lanka Accounting Standard No. 16, when the control, risk and the benefit of the assets are transferred to the Company, action should be taken to account for them under non-current assets.</p> |
| (d) | <p>In terms of section 14 of the Sri Lanka Financial Reporting Standard No. 07, the carrying amount of the financial assets pledged as collateral for the liabilities, should be disclosed in the financial statements. However, the fixed deposit amounting to Rs.400 million kept as a security for the letter of credit facility up to Rs.5000 million had not been disclosed in the financial statements.</p> | <p>The note will be disclosed on the FD Certificate pledged against LC.</p>   | <p>The carrying amount of the financial assets pledged as collateral for the liabilities, should be disclosed in the financial statements.</p>   |  |

## 1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
According to the Note No.2.1.4 to the financial statements, Investment properties are valued at the fair value. However, it was observed that 299 locations situated within the operational building rented out by the company had not been identified as investment properties.	The process of Identification of Investments Properties separately is a complicated and painstaking procedure which has several practical implications and this will be looked into in the future in complying with the Accounting Standards.	As per the Accounting standard and policy, Investment Properties should be recognized in the Financial Statement.

## 1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the Section 03 of the article I of the loan agreement of the package A - Passenger Terminal Building and Associated works, the borrower shall pay commitment charge to JICA in semi-annually at the rate of one tent percent (0.1%) per annum on the total unused balance of the amount. The commitment chargers and project related expenses (Ex. Salary, Security Expenses, Janitorial services, etc.) incurred during the project suspended period was Rs.68,980,863. Although the commitment charges and project related expenses which are uneconomical should be charged to the statement of comprehensive income. However, it had been accounted as work in progress. As a result, retained earnings and work in progress as at the end of year under review had been overstated by similar amount.	Commitment charges are part of cost of the borrowing. The borrowing costs incurred by an entity to finance payments relating to a qualifying asset are capitalized. As interest during construction is also capitalized, in a similar manner we believe that the commitment charges during construction should also be capitalized as the loan is committed by JICA specifically for this project.	Commitment chargers and project related expenses incurred during the project suspended period should be charged to the statement of comprehensive income.
(b) According to the general condition 6.2 (b) and (c) of the consultancy services agreement, the payment for personnel shall be determined on the basis of time actually spent by such personnel in the performance of services and reimbursable expenses actually and reasonability incurred by the consultant	<p><u>Foreign Payments:</u> Invoice Nos. F 34 - F39 were submitted to PMU but not proceeded to JICA because JICA did not accept further payments after the suspension of loan.</p> <p><u>Local Payments:</u> Invoice Nos. L34 – L46 were</p>	Payments to be made in accordance with the consultancy services agreement should be accounted after approving properly.

in the performance of services should be made by the client to the consultant. However, Yen 120,891,450 in respect of foreign portion and Rs.147, 259, 653 in respect of local portion to be made to the consultant by the client had not been accounted. As a result, work in progress and consultant payable accounts had been understated by similar amounts.

submitted to PMU but not proceeded to JICA because JICA did not accept further payments.

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| (c) | As per the letter dated 12 <sup>th</sup> April 2022 issued by the General Treasury, the Company ceased the repayment of three foreign loans obtained for Airport development projects amounting to Rs.4, 278 million as at 31 <sup>st</sup> December 2022. According to the loans agreements if the borrower fails to pay any amount payable on its due date, interest shall be accrued on the overdue amount from the due date up to the date of actual payment at a rate mentioned in the loan agreements. However, no provision had been made for the default interest of the above three loans or disclosed in the financial statements of the year under review. | Agreed. Action will be taken to disclose default interest accordingly. | Default interest on loans should be disclosed in the financial statement. |
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## 1.6 Accounts Receivables and payables

### 1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
The outstanding debtor balance of Sri Lankan Airlines in respect of default interests on Landing & Parking, and Aerobridge Charges and Rental & other charges as at the end of year under review was amounting to Rs.1,541.8 million which is more than one year. Further, the debtor balance had not been confirmed by the Sri Lankan Airlines Limited up to the date of this report.	This total balance solely includes “default interests” and AASL had repetitively sent payment reminders to Sri Lankan Airline on periodical basis requesting duly settlements and all of them including all actions taken up to date had been submitted to the Auditor General for his perusal. By letter of the Department of Public Enterprises, Treasury dated 29 <sup>th</sup> March 2023, had informed that they do not have any objection on the Minister of Ports, Shipping and Aviation enforcing his powers to take a decision on write-	Prompt action should be taken to recover the over dues.

off this outstanding balance and accordingly the matter will be referred to the Board of Directors meeting to be held on 30<sup>th</sup> May 2023 to take a suitable decision.

AASL requested Sri Lankan Airline to confirm their debtor balance as at 31.12.2022 by letter dated 31.03.2023. However, Confirmation has not been received by AASL though email reminder also forwarded to Sri Lankan Airline.

### 1.6.2 Payables

Audit Issue	Management Comment	Recommendation
<p>A sum of Rs.193 million received from debtors as advances had been shown in the financial statements of the year under review, without refunding or off setting against respective debtors. Further, a separate age analysis of credit balances had not submitted for audit.</p>	<p>These are over payments by the Customers and these balances will be set-off against future invoices. We have already informed Customers to submit remittance details together with the payments. Once they submit relevant particulars actions will be taken to set-off credit and debit balances. Separate age analysis for the credit balances cannot be generated and these are also included in the Age Analysis submitted to the Auditor General. Customers' balances reflect net of over payments</p>	<p>Action should be taken to identify and settle the prepayments balances immediately.</p>

### 1.6.3 Advances

Audit Issue	Management Comment	Recommendation
<p>(a) Although the supplier advances obtained by all the heads of divisions and sections should be settled before the end of the respective year. However, the advances aggregating to Rs.100 million obtained for purchasing of goods during year and preceding years by various division of the Company had not been settled.</p>	<p><b>Agreed</b> - Regular reminders were sent to all HOD to settle the long outstanding Supplier advances in a timely manner and they used to make settlements satisfactorily prior to Covid impact and economic downturn. But after 2021, this could not be done as practiced due to the non-availability of required items in the market with import restrictions and higher prices for the available</p>	<p>Supplier advances should be settled within specified time period after completing the procurement.</p>



items in the market. In addition to that, newly implemented ERP system issues also had an impact on timely settlements.

- (b) According to the procedures of cash advance introduced by the company, the advance obtained for the purpose should be settled by the user within ten (10) working days. However, A sum of Rs.3,614,429 given to BIA, Rs.610,715 given to RMA, Rs.450,248 given to JIA, Rs.2,207,760 given to Matthala (as at 31<sup>st</sup> January) have not been settled as at 28 February 2023. The aging of the cash advances were as follows.

Unsettled Period	Amount (Rs.)
More than 365 days	162,937
Less than 365 days more than 180 days	487,020
Less than 180 days more than 10 days	4,910,580
Less than 10 days	1,406,216

Regular remainders were sent to all the HOD to settle the long outstanding cash advances and normally they do the settlement as a normal practice. But during the year 2022, this could not be done as practiced due to the non-availability of required items in the market with Import restrictions and high prices for the available items in the market. Also, the ERP system issues when recording the settlement transaction have impacted the settlement delay.

More than one year outstanding is due to the loss of original documents during the Covid-19 period and continuous remainders were sent to relevant HOD to settle them immediately.

Action will be taken to recover all long outstanding cash advances and regular remainders will be sent to the respective HOD for the unsettled amounts.

Cash advances should be settled within specified time period after completing the procurement/ service/ work.

### 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following instances of non-compliance with laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 14 of the Civil Aviation Act, No.14 of 2010	A Master Plan on establishment or expansion of aerodromes had not been prepared and obtained the approval from Civil Aviation Authority of Sri Lanka up to 15 May 2023 by the Company.	Bids have been called for the selection of a Consultant. Letter of Acceptance (LoA) dated 16 <sup>th</sup> Dec. 2023 was issued and it has been accepted by the selected Bidder. However, prior to signing of the contract	Master plan should be prepared and action should be taken to get approved as in the Civil Aviation Act

According to management agreement, the selected Bidder intended to deviate comment, it has been decided to call fresh and amend the finally Request for Proposals negotiated and agreed terms. Therefore, it has been decided to call fresh Request of Proposals (RFP) for the purpose with the consent of the line ministry

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| (b) | Public Enterprises Circular No. 01/2021 - Guideline on Corporate Governance Section 2.2.2 (b)xii, and 4.3 (a), (b) | It is required to ensure the proper functioning of Board Sub Committees and the role of Risk Committee to identify and evaluate the risk profile of the company and develop and implement a risk management framework and recommend strategies to mitigate the risk and control system including a risk rating mechanism. However, above requirement had not been fulfilled by Company. According to the management comment, The Risk Management Framework (RMF) is being prepared. | The Risk Management Framework (RMF) is being developed under the ISO 31000 compliance process and the Risk Profile is part and parcel of the RMF. Apart from that, Determination of ERM Strategic Objectives, Determination of Risk categories and Generic Risk Descriptors, Development of Likelihood & Consequences Matrix and Risk Appetite & Tolerance Matrix are also being developed and the likelihood and Consequence matrix is in place for the all risks identified in the risk register. The partially completed documents was produced to the Government Auditors. | Risk management framework and recommended strategies to mitigate the risk and control system including a risk rating mechanism should be implemented   |
| (c) | Section 2.2.2 (b) xiv, 2.3   | In overseeing performance excellence it should be institutionalized a post review mechanism within the Company taking into account the achievement of objectives of the Company. Further, the Board of Directors should periodically evaluate and ensure the effectiveness of implementation of the strategic plan and should take corrective measures if required. However,  | It is worthwhile to note that the quarterly monitoring happened in the first 02 quarters of the 2021 and the HODs expressed various resistance verbally and in writing telling that, it's a time consuming task, while increasing the workload with parallel administration to be carried out in fulfilling the instructions given by the appointed directors to the task.   | Progress of the action plan in summarization form should be forwarded to the Board of Directors with critical issues, reasons for delay, effects to the operation, etc related to the major projects or contracts. The BOD should review the progress regularly. |

progress of the action plan had not been forwarded to the Board of Directors with critical issues related to the major projects or contracts.

(d) Public Enterprises  
Circular No.  
01/2021 -  
Operational  
Manual for state

(i) owned Enterprises  
Section 1

A Gap analysis should be carried out collaborating with other head of operations to analyze the gap between the existing structures and those recommended in operational manual for state owned enterprises and it must take action in consultation with the Boards to enhance their existing operational structures as appropriate to meet the requirements as noted in operational manual. The above requirement had not been fulfilled by the Company yet.

Actions will be taken to monitor the compliance with Operational Manual at Board level, instructing relevant Heads of Division/ Unit Managers to submit required reports quarterly to the Board confirming the compliance with the requirements of Operational Manual under reference.

A Gap analysis should be carried out collaborating with other Head of Operations to analyze the gap between the existing structures and those recommended in operational manual

(ii) Section 3.2

The Company must submit their requests pertaining to cadres including the cadre positions, Scheme of Recruitments (SOR), pay structure and allowances with a Board approval and recommendations of the Line Ministry, for the approval of the Director General, Department of Management Services (DGMS) with a copy to Director General of public

**Agreed.** SORP review process is in progress and Cadre Approvals also will be obtained from the Management Services Department simultaneously

Action should be taken to prepare a scheme of recruitment in accordance with the provisions of the circular instructions and to obtain approval from the relevant Authorities.

Enterprise (DGPE) or Director General Department of National Budget (DGNB) as applicable. However, above requirements had not been fulfilled by the Company.

- (iii) Section 3.4 The Company should ensure in formulating schemes for recruitments and promotions to incorporate the Job description, academic qualifications, experience, etc. However, Job description and mode of recruitment had not been included in scheme of recruitment of the Company is being used. **Agreed.** SORP review process is in progress and basic salary structure, SORPs, Job Descriptions will be streamlined and approval of the Management Services Department will be obtained. Job description and mode of recruitment should be included in scheme of recruitment of the Company.
- (iv) Section 4.3 (i), (iii) It is a requirement that the Company undertakes a proper mechanism to determine its need assessment and determination of a right quantity, quality and time for the required goods. Further, the Company must ensure that a formal inventory management system in place for the management of inputs. However, there were zero stock balances for 955 stock items as at 31<sup>st</sup> December 2022. Supply Chain Management division maintain more than 12000 (SKUs) items in its stores located at BIA, RMA and MRJA for the use of day today maintenance and operational work. SCM division periodically change the stock levels coordinating with user divisions to fulfil their requirements but due to some unavoidable reasons there may be insufficient stocks and it became worst during the COVID-19 pandemic period. However now Board of AASL has appointed a committee which is headed by one board member to prepare and get Treasury approval for procurement manual for AASL to address for delaying points. Further to above, a Company must ensure that a formal inventory management system in place for the management of inputs. The availability of stock items in the store should be ensured at least for essential and pass moving items.

committee has been appointed to determine the stock levels of fast moving items and first meeting of the 2<sup>nd</sup> committee has been arranged on 18/05/2023.

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| (v)  | Section 6.6   | Draft annual report and accounts should be handed over to the Auditor General within 60 days after the close of the financial year. However, the draft annual report of the Company had not been forwarded to the Auditor General  | <b>Agreed.</b> However, this time bar is highly impractical and unrealistic timeline for a commercial entity like Airport and Aviation Services. Annual Report (enrich in qualitative and quantitative aspects) preparation process to be done painstakingly and it consumes in average minimum 3-4 months with Sinhala and English translations   | Draft annual report should be forwarded to the Auditor General within specified period in the circular. |
| (vi) | Section 6.11  | The company should have a clear communication policy with its stakeholders, both internal and external, that facilitate the company to make informed decisions while ensuring transparency and accountability and it is also mandatory that the company upload the procurement plan and the project execution plan on to the company website. However, the projects execution plan had not been uploaded to the company website yet. | <b>Agreed.</b> As discussed at the AMC meeting held on 27.02.2023 and directed by AMC Chair, to develop a temporary system for monitoring of projects until the ERP is developed, a format for project monitoring incorporating all necessary information/ status of each project is developed by IT Division. Accordingly, all Divisions can enter information/ status of projects under their purview. Further, IT Division is in the process of developing this format into a centralized system so that information/ status of the projects can be verified at any given time. | The projects execution plan should be uploaded to the company website.                                  |
| (e)  | Section 9.3.1, 9.3.1 (i) and 9.7 of the Public Enterprises circular No PED/12 and 2 <sup>nd</sup> | The Company must submit their requests pertaining to cadres including the cadre positions, Scheme of Recruitments (SOR), pay structure and allowances  | <b>Agreed.</b> Appropriate action will be taken to rectify this concern in due course.   | Approval should be obtained from the Director General, Department of Management Services                |

June 2003

with a Board approval and recommendations of the Line Ministry, for the approval of the director General Department of Management Services. However, approval of Director General Department Management Services had not been obtained. Further, the company had paid different type of 16 allowances to staff aggregating to Rs.2,216 million for the year under review with only the board approval and no approval had been obtained from the Director General Department of Management Services.

- (f) Section 2.3 and 3.1 of the Public Enterprise Circular No PED 01/2015 dated 25 May 2015 and circular No. 01/2015 (ii) dated 14 January 2022
- 115 Liters is eligible for any other officers who hold a post approval equal or above HM 1-1 category of the Company. However, 130 liters for 128 officers of S<sub>10</sub> salary scale and 200 liters for 209 officers of S<sub>11</sub> (above salary scale had been given by the company) had been approved by the Company. As revealed in sample audit test 240,280 liters of fuel amounting to Rs.88.9 million had been given to 337 officers during the year under review as monthly fuel allowances in excess to the approved limits contrary to the circular provisions.
- Agreed.** However, A BOD approval has been obtained for the Officers those who are on S10 and S11 & above for granting 130 liters and 200 liters of fuel respectively considering the official requirements.
- Action should be taken to comply with the circular instructions or getting the approval from Ministry of finance for payment of additional fuel allocation.

- (g) The Board decision (No.BP-BM-03-27/04/2021) taken on 27<sup>th</sup> April 2021
- Five (5) clusters had been appointed namely infrastructure cluster, financial strategy cluster, operations strategy cluster and marketing and Business development strategy cluster and HR strategy cluster to monitor performance of the divisions of the Company. However, those five clusters had not functioned their duties during the year under review
- All divisions and Units were categorized under 05 clusters and the achievement of the Divisional action plans which are prepared based on the Corporate Plans were reviewed by allocating a sufficient time. All cluster reviews were carried out in the first 02 quarters of 2021 successfully except the HRM strategy cluster which was not held, where the then VC chaired. These clusters covered all Projects and programs undertaken by the divisions. The deviations and the suggestions or recommendations were sent to the board through a board paper
- It should be complied with the requirements of Board Decision.
- However, this quarterly review sessions were unable to continue due to various concerns raised by the HoDs on time pressures, extensive workloads and parallel administration (where HoDs have to adhere to instructions given by non-executive directors, apart from the line of reporting done to the executive directors). Therefore, as a response to manage the resistance, the cluster chairs stopped the quarterly progress review (monitoring) sessions.

## 1.8 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(a) According to the section 11 of the Inland Revenue Act, No 24 of 2017, in calculating the income from business for the year of assessment, the expenses incurred during the year in production of income shall be deducted. No deduction shall be allowed	This was duly accepted by the Inland Revenue Department (IRD) since 2011. Almost all Tax Consultants hired by AASL including the current Tax Consultant did not have any	Formal approval from the IRD should be taken to deduct the loan repayment made to treasury in tax calculation.

under this section for an expenses of a capital nature. However, when calculating the assessable income from business, a sum of Rs.1255 million paid to General Treasury by the Company for loan repayment during the year under review had been deducted without formal approval from the IRD and this adjustments has been practiced since year 2011. As a result, the income tax for the year of assessment 2021/22 had been understated by Rs.376.5 million.

- (b) A sum of Rs.848 million has been shown as income tax receivable for the assessment year 1999/2000 and 2013/2014, in respect of withholding taxes and Notional taxes in the statement of financial position of the Company as at 31 December 2022. Subsequently, the Department of Inland Revenue had confirmed that a sum of Rs.321 million may be returned subject to a detailed audit in its statement of January 2023 dated. Therefore, realization of the income tax receivable amounting to Rs.527 million is uncertain.
- All the relevant Correspondence had been duly completed and submitted for the perusal of Inland Revenue Department and delays of the refunds are from IRD end. Confirmation for tax receivable should be called from IRD and if it is not confirmed, Accounts should be adjusted accordingly.
- (c) According to the Section 22 (6), (6) (iv) (a) of the Value Added Tax Act No. 14 of 2022, any invoice has not been deducted as provided for in this Act, from the output tax for any taxable period ending on or before the expiry of twelve months from the date of such tax invoice, by furnishing within the said period of twelve months the return for that taxable period. It was observed that the company could not claim Rs.82,348 For an invoice of Rs.1,111,705. Further, invoices for Rs.29,835,772 of Supplier advances unsettled more than one year had not been forwarded for audit. Therefore, It would not be assessed the total value of VAT unclaimed.
- Agreed. Finance can claim any input VAT provided relevant correspondence including invoices are forwarded to the finance within the given time line for settlement. However, in the particular case, respective division was unable to settle this invoice (Invoice No. SI-5023-007773-Rs.1,111,705.10)due to ERP system issue (incorrect item code identified at the MSI creation stage). This matter has duly been inform to ERP implementing partner, IFS through a LCS case. Input VAT should be claimed within the time period mentioned in the Value Added Tax Act No. 14 of 2022



## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.4,802,697,567 as compared with the corresponding loss in the preceding year amounted to Rs..2,083,501,758. Therefore, an improvement of the financial result was observed. The main reasons for the improvement was increase in revenue by Rs.18,620,225,217 that was 250 percent and increase in other income by Rs.1,147,618,739 that was 230 percent comparing with the preceding year.

### 2.2 Trend Analysis of major Income and Expenditure items

Description	2022 Rs.)	2021 (Rs.)	Variance (Rs.)	Percentage of Variance%
<b>Revenue</b>				
Aeronautical Revenue	6,194,101,107	2,299,185,952	3,894,915,155	169
Non Aeronautical Revenue	19,812,294,504	5,086,984,442	14,725,310,062	289
Other Income	1,640,400,773	492,782,034	1,147,618,739	232
Finance Income	6,136,674,362	3,321,110,256	2,815,564,106	84
<b>Administration &amp; Establishment Expenses</b>				
Staff cost	7,993,463,942	6,040,068,058	1,953,395,884	32
Repairs & Maintenance	475,950,365	354,388,479	121,561,886	34
<b>Finance Cost</b>				
Exchange gain /(loss) (On loans)	43,977,059,211	2,141,205,420	41,835,853,791	1953

The following observations are made.

- The increase of the other income, Aeronautical Revenue and Non Aeronautical Revenue by 232,169 and 289 percent respectively.
- Repairs & Maintenance cost had increased by 34 percent with compared to the preceding year.
- Exchange gain / (loss) had increased by 1953 percent compared with the preceding year (due to devaluation of Sri Lanka Rupees against the foreign currency.)

### 2.3 Ratio Analysis

Type of Ratio	2022	2021	2020	2019	2018
Current Assets Ratio (number of times)	4.23	5.98	7.68	7.23	3.49
Quick Assets Ratio (number of times)	4.1	5.88	7.55	7.10	3.43
Leverage Ratio (Times)	2.44	1.66	1.38	1.38	1.73
Net Profit/ (Loss) Ratio (%)	17	(26)	(31)	43	18
Basic (Loss) / Earnings per Share (Rs.)	24013	(10,417)	(12,522)	54,979	26,566
Return on total Assets (%)	3	(2)	(2)	10	5
Revenue per Passenger (Rs.)	5024	5,234	3,373	2,580	2,640

The following observations are made.

- (a) Current Assets Ratio and Quick Assets Ratio had decreased gradually from year 2020 to 2022. Increase in portion of current liability of borrowings by Rs.8,955 million and increase in trade and other payables by Rs.4,313 million were the main reasons attributed for the decrease in Current Ratio and quick Assets Ratio.
- (b) The earning per share had increased by 330 percent during the year mainly due to transferring the last year loss to profit for the year under review.
- (c) It was observed that the Leverage Ratio had increased gradually from the year of 2020 to 2022

**3. Operational Review**  
**3.1 Performance**

The physical performance of the Key Performance Indicators (KPI's) of the Company is given below.

<b>Key Performance Indicator</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Number of International Flight Movements	37,641	21,204	20,881	62,195	67,351
Number of Total Passenger Movements	5,503,198	1,505,479	2,375,056	9,958,688	10,884,028
Cargo Movements (Metric Tons)	173,597	241,506	150,075	259,089	279,559
Overflying Movements (No's)	23,846	9,339	16,370	45,674	43,804
Total Cost per Flight Handled (Rs.'000)	727	574	738	235	318

Performance of all Key Performance Indicators (KPI'S) had deteriorated during the years 2021 and 2020 comparing with years 2018 , 2019 and 2020 mainly due to the severe effect of Covid 19 pandemic to the field of aviation. According to the management comments, recovery to normal situation has started during the year under review

### 3.2 Management Inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) The movable assets amounting to Rs.3,783.8 million shown in the annual board of survey committee report in respect of 7527 objects belongs to 23 divisions of the Company as at 31 December 2022, could not be physically verified due to inability of identifying physically. Therefore, the existence of those assets could not be ascertained during the audit.	The status report of summarized all Divisional Board of Survey Committees submitted to government audit on 10 <sup>th</sup> May 2023 as per the request for the audit on final accounts. The detailed reconciliation will be submitted with all divisions available and not available, additional assets identified and list of Unserviceable assets prior to the 15 <sup>th</sup> June 2023 as per the circular.	As per FR 507, all assets should verify at the end of year. However, list of the assets, could not be verified due to inability of identifying physical existence, should be forwarded to the Board of directors and actions should be taken accordingly.
(b) According to the memorandum of understanding (MOU) signed between the Airport and Aviation Service (Sri Lanka) Limited (AASL) and the Sri Lankan Airlines Limited (SLAL) on 29 March 2011, the AASL will continue to provide space already allocated to Sri Lankan Airlines Limited and both parties should be entered into a lease agreement. However, without signing a lease agreement, 3 spaces had been leased to the SLAL since the year 2011. Another 7 activities and spaces of the AASL had been given to the SLAL on the awarding letters without signing the lease agreements.	MOU is valid from 29 <sup>th</sup> March 2011 to 31 <sup>st</sup> March 2028. This covers both Sri Lankan Airline and Sri Lankan Catering. AASL had already signed 2 agreements out of 05 agreements to be signed with Sri Lankan Airline. The rest of agreements are governed by the MOU until agreements are entered.	Lease agreements should be signed without delay.
(c) Even though Key Performance Indicators relating to the activities of each division of the company should be introduced and actual performance should be evaluated accordingly. However, the evaluation of KPI had not been carried out during the year under review.	The divisional KPIs have been identified in the divisional broad plans prepared under the Corporate Plan which is done on rolling basis for the next 3 years. The baseline KPIs and the target KPIs also have been identified and revised annually.	Evaluation of KPIs should be carried out to measure the achievement of company's objectives.
The Secretary to the Treasury has directed the Company to fulfil the	We are currently in the process of valuing all movable and	It should be comply with the treasury direction if

following conditions by his letter No.PE/GOCO/1/1 dated 09 February 2006.

- (d)
- i. Action being taken to value the land and building of airport presently owned by the Government and other movable and immovable assets held by the Company
  - ii. Taking over the liabilities relating to Airport Development presently serviced by the Government of Sri Lanka, and
  - iii. Issuance of shares to the Government of Sri Lanka for the net assets thus transferred

immovable assets. Government valuation department. However ownership of land used by AASL has not been transferred to the Company. Upon completion of such valuation all immovable properties, will be taken in to accounts subject to clearance of legal ownership. Further, action has already been taken to obtain the consent in writing from the Director General of Civil Aviation Authority for the use of all movable and immovable assets as the statutory service provider empowered by Aviation Act No 14 of 2010.

there is barrier to fulfill the requirement that should be communicated to the relevant parties.

However, the company had taken over only the liabilities and no actions has been taken to Value the land and buildings and other movable and immovable assets owned by the Government and brought to the accounts nor issuing shares to the Government of Sri Lanka for the net assets transferring.

This matter has already been communicated to the Secretary to the Ministry of ports, shipping and Aviation on 13th September 2022 in order to resolve this issue without further delay.

- (e)
- Inadequate access licenses due to no feasibility study conducted prior to implementation of the project
- A feasibility study had not been conducted before implementing of ERP system project. Therefore, the project had been implemented without proper study. Finally, all divisions had involved to the system to carry out the operation of the company. Because of large number of users, it was observed that the given access licenses had not been adequate to operate the ERP system. Further, it was observed that multiple users were accessing the system using the same password.

The purchased licenses were inadequate because AASL decided to handle the purchasing and invoicing procedures at individual Divisions. Separate procurement is in progress to cater for this.

Necessary action should be taken to solve the issues of users.

### 3.3 Operational Inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
<p>(a) The operating cost of the Mattala Rajapaksha International Airport (MRIA) in the year under review had recorded Rs.2,033 million and it was 26 times over the operating Income. Net loss after tax for the year under review was Rs.22,214 million mainly due to effect of the foreign exchange loss and cumulative net losses after tax from year 2017 to 2022 was Rs.42,818 million. Although the expected annual passenger capacity of the Mattala Airport was around one million, the total number of passengers during the last six years was only 103,324 and total flight movements of last six years were 2,612. Hence, that a total sum of Rs.36,564 million equivalent to USD 247.7 million incurred for the construction of the airport had not effectively used. Further, a sum of Rs.1, 842 million had been paid by AASL as the annual loan instalment for the debt of USD 190 million obtained for the above construction.</p>	<p><b>Agreed</b> - The operation of Mattala Rajapaksha International Airport as international civil airports under the administration of AASL were the decisions taken by the government of Sri Lanka and not the decision by AASL.</p>	<p>Action should be taken to operate and upgrade Mattala Rajapaksha International Airport in more efficient and effective manner and in a profitable way.</p>
<p>(b) The cumulative loss of the Colombo International Airport, (CIAR) - Ratmalana from year 2017 to 2022 was Rs.2,827.9 million, its includes the loss of the year under review amounting to Rs.1, 154 million. As per the comment given by the Company, the operational model of CIAR is differ from other Airports in Sri Lanka, since it mainly operates training and domestic commercial operations whilst facilitating Sri Lanka Air Force operations. Further, overflying revenue is absorbed into the AASL's corporate income. The</p>	<p>Upgrading the operations of Colombo International Airport Ratmalana to international civil operations is also a decision taken by government. Further, it is emphasized that the operational model of CIAR is different from other airports in Sri Lanka as it mainly operates training and domestic commercial operations whilst facilitating SLAF operations. Therefore, one cannot measure the operational performance of this airport only based on the number of</p>	<p>Action should be taken to operate and upgrade Ratmalana International Airport in more efficient and effective manner and in a profitable way</p>

financial losses of CIAR includes huge Area Control Centre - related cost but in a scenario associated overflying revenue is absorbed into AASL's corporate income right now. The AASL is in the process of rectifying the same looking in to the possibility of absorbing overflying revenue into CIAR under the instructions of the Board of Directors. Only 13 Aircrafts movements in year 2020 and the flight movements during the year 2022 was 38 and the passenger movements during year 2020, 2021 and 2022 were 60, 28 and 54 respectively.

international flight operations. CIAR financial losses includes huge Area Control Center-related cost but in a scenario associated overflying revenue is absorbed into AASL's corporate income. Right now, AASL is in the process of rectifying the same looking in to the possibility of absorbing overflying revenue into CIAR under the instructions of the Board of Directors. Moreover, at CIAR & BIA, AASL is providing aeronautical and aerodrome services to SLAF aircrafts without any revenue considering the state requirements. There is no mechanism to highlight that cost involvement in SLAF operations and that cost automatically affects the airport operational cost stated.

- (c) The Jaffna International Airport had inaugurated on 17 October 2019. From the inception of the Airport, only 166 aircrafts movements and 5035 passenger movements had recorded and the recorded cumulative loss during last 04 years was Rs. 232.8 million. The revenue and the operating expenditure during the year under review was 4.7 million and Rs.81.8 million respectively. JIA already recommenced scheduled international operations and currently operates 04 flights per week. Further, generating additional revenue from Ground handling services and duty-free commission. Action should be taken to operate and upgrade, Jaffna International Airport in more efficient and effective manner and in a profitable way
- (d) The Batticaloa International Airport had reopened to civilian operation on 25 March 2018 and no revenue had earned even as at the end of year under review, even though a sum of Rs.86.62 million had been incurred as expenditure during last five years AASL is considering to handover Batticaloa International Airport to Sri Lanka Air force to carryout civil operations as done previously. Official request in this regards has been forwarded to the Ministry on 18 October 2022. Action should be taken to operate and upgrade Batticaloa International Airport in more efficient and effective manner and in a profitable way

### 3.4 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
<p>By virtue of the powers vested in the Minister under Section 9 of the Civil Aviation Authority of Sri Lanka Act No.34 of 2002, the Minister by the order published in the Gazette Extraordinary bearing No. 2050/38 dated 21st December 2017 transfer and vest in the Civil Aviation Authority of Sri Lanka aerodrome specified in the Second Schedule (Katunayaka Airport and Rathmalana Airport) and the seven aeronautical facilities and the land appertaining thereto (The building and structures there on and land appertain thereto) specified in Third Schedule of the aforementioned Act. The Company had invested a sum of Rs.76,328 million (Carrying Value) from the date of Company formed in 1983 to as at 31<sup>st</sup> December 2022 for the development of the infrastructure of Air Ports as a statutory service provider without transferring the ownership of the lands.</p>	<p>According to the Air Navigation (Special Provision) Act No. 11 of 1983, all immovable property in the possession and control of the Airports Authority on the day immediately preceding the appointed date shall be transferred to and vest in the Director of Civil Aviation and all movable property including money to which the Airports Authority is entitled to, or which is in its possession and control on the day immediately preceding the appointed date shall be transferred to, and vest in, the Agent appointed under section 21A of the Air Navigation Act;</p> <p>However, as per provisions prevailed in the Air Navigation (Special Provisions) Act all movable and immovable property vested in the Director of Civil Aviation and made available to the Agent by the Minister was with effect from 20<sup>th</sup> January 1982, be deemed to be property held by the Agent for and on behalf of the State.</p> <p>AASL being the Agent as per Air Navigation (Special Provisions) Act No. 2 of 1982, and currently gazette as the Statutory Service Provider as per the Civil Aviation Act No. 14 of 2010, AASL has been entrusted with the Development, Operation and Maintenance of Bandaranaike, Mattala Rajapaksa, Colombo Airport-Ratmalana, Batticaloa and Jaffna Airports</p> <p>Accordingly, AASL has made huge investments of approx. 76,328 million for the acquisition of lands and development of the infrastructure of airports from year 1983 up to December 2022,</p> <p>Currently the Civil Aviation Authority of Sri Lanka is in the process of taking action to vest the lands/buildings &amp;</p>	<p>Investment should be done only after the getting approval from the relevant Authority and higher level discussion should be started regarding this matter</p>



structures with CAASL after AASL developing the lands and constructing on such lands with huge capital investments over the past 40 years.

Therefore, AASL too in doubt about its investments made so far for acquisition of lands, construction and development of airport.

In the light of the above, on the direction of the Board of Directors of AASL these matters have been brought to the notice of the Secretary to the line Ministry in September 2022 for a solution or a way forward action in further development and utilization of such lands by AASL.

### 3.5 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
<p>(a) The construction works of package “B” –Remote Apron and Taxiways was scheduled to commence on 25 April 2017 and to be completed by 24 October 2019. However, the construction works had been completed on 26th January 2022. Therefore, the expected outcome of the project could not be achieved in due time.</p>	<p>The Construction work of Package-B commenced on 25th April 2017 and was to be completed on 24th October 2019. The following time extension has been recommended by the Consultant for valid reasons. Extension of Time up to 29th February 2020.</p> <p>The Work was completed on 26th January 2022 and delay damages to the amount of JPY 106,937,376.00 and LKR 410,768,933.00 was charged from the Contractor, as per the agreed Contractual Conditions. Taking over certificates issued to the Contractor, after successfully completing each work section of BoQ and fulfilling respective contractual obligations. In this Contract, there is no Completion Certificate issued at the completion of works. Instead, the Consultant will issue the Performance certificate after the successful completion of the defect notification period, attending to all defects and fulfilling all Contractual obligations.</p>	<p>Project delays should be minimized in order to achieve the expected outcome of the project.</p>

**(b) Package A - Construction of Passenger Terminal Building and Associated works.**

The above constructions works had been awarded to Contractor of Japan on 04<sup>th</sup> March 2020 and agreement signed on 12<sup>th</sup> of March 2020 and the performance security had been given on 25<sup>th</sup> March 2020. However, the contract work has been commenced on 15<sup>th</sup> December 2020 after signing the contract on 12<sup>th</sup> of March 2020 with 09 months delay. Further, according to the contractor's implementation plan, the contract progress as at 31<sup>st</sup> December 2022 should be 30 percent. However, the actual progress of the contract was only 5.38 percent. According to the management comment, Covid-19 pandemic and global travel restriction are the main reason for the low progress.

Package A contract was awarded to Taisei cooperation (TC) on 04<sup>th</sup> March 2020 and agreement was made on 12<sup>th</sup> March 2020 and the TC submitted the performance security on 25<sup>th</sup> March 2020.

The contract commencement was delayed up to 15<sup>th</sup> December 2020 due to the following reasons.

- a) Inability to mobilize contractor's foreign staff due to Covid 19 pandemic and global travel restriction that prevailed at that time.
- b) The Sri Lankan government declared a complete lockdown from 15<sup>th</sup> March 2020 to 20<sup>th</sup> April 2020, and restricted gathering and movements including construction site activities. There were partial lockdowns, area isolations, travel restriction, quarantine curfews and work from home etc.
- c) There was no guarantee in the pandemic situation that prevailed in the country for continuous uninterrupted construction works at the site even if the instruction to commence work was given to the contractor before 15<sup>th</sup> December 2020.
- d) The contractor provide the advance payment guarantee on 07<sup>th</sup> October 2020 which is pre-requisite for instructing commencement of work by the consultant.
- e) However, the contractor was allowed to carry out preliminary works such as underground surveys, soil investigation, and demolition surveys etc. before 15<sup>th</sup> December 2020.

Daily work and resources allocation plan should be reviewed and monitored in accordance with the actual work done and resources allocation. Further, planned progress of the contract should be reviewed by giving special attention in monthly progress.

- (c) An enterprise resource planning system (ERP) was proposed to implement for AASL in order to improve the efficiency of the systems and process of the company. Accordingly, contract agreement for implementation of enterprise resource planning (ERP) system modules was signed on 15<sup>th</sup> August 2019 between AASL and IFS research development (PVT) Ltd at a total cost of USD 530,571 (Excluding VAT) and Rs.38,900,544 (Excluding VAT). According to the agreement, The completion period of the contract was within fifteen (15) months from the date of signing of the contract agreement which was 15 November 2020. Subsequently, one extension had been given to complete the contract as per information provided by the management. However, enterprise resource planning (ERP) system modules had not been completed by issuing the final acceptance certificate as at 25<sup>th</sup> March 2023 even though 3 years and 3 months were over from date of contract signed. Payments already paid to the contractor as at 25<sup>th</sup> March 2023 was USD 427,109 and LKR 14,704,405 (with VAT).
- The project got delayed because of following reasons.
- Project should be completed as planned and without any huge delays.
- I ) Incorrect GAP document submitted to the Board without discussing it with steering committee
- II) COVID
- III ) Issue resolution after GI-Live

### 3.6 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) <b>Supply, Testing and Commissioning of LED Flood Light Fittings &amp; Lighting Control System for Apron-A at BIA.</b> (Estimated cost is Rs.23 million.)		

- |   |  |   |  |
|---|--|---|--|
| (i)   | According to the initials PTS, it was planned to start this procurement on 3 <sup>rd</sup> January 2018 and to complete 24 <sup>th</sup> April 2018. However, the procurement was completed on 28 <sup>th</sup> October 2019 after revising PTS in two times. It was observed that the time taken for this procurement was nearly 1 year and 9 months when comparison with initial PTS.  | PTS is prepared at the time of sending the tender file to Secretary of the relevant Tender Board considering the procurement activity initiation date as the date of sending file to Secretary Tender Board initially. Accordingly, PTS activities should be commenced from 28.08.2018                                  | Procurement should be completed in accordance with PTS.  |
| (ii)  | As a result of the delay of procurement process, estimated cost of the procurement had been increased from Rs. 23 million (Initials estimated cost) to Rs. 26.9 million when procurement was completed.  | Since the procurement process was continued to the year 2019, it was taken time to get the justifications, allocation Budgetary provision under the year 2019 prior to submit to the Tender Board. Also due to the revision of estimated cost, it was again requested to amend the Bid document.                        | Additional cost on procurement should be minimized by taking proper actions in procurement process |
| <br>  |  |   |  |
| <b>(b) Supply of 50kW &amp; 25kW Grid Tie Inverters at BIA.</b> (Estimated cost is Rs.3 million.) |  |   |  |
| (i)   | According to the initial PTS, It was planned to start this procurement on 25 <sup>th</sup> July 2019 and to complete 19 <sup>th</sup> October 2019. While the procurement process was going on, Supply Chain Management had informed to the Tender Board No 02 to cancel procurement by considering the TEC report dated 27 <sup>th</sup> May 2022. It was observed, that the time taken for this procurement was nearly three years, when it was cancelled. Keeping files unnecessarily without taking action and referring to the next level, file handing delays and lack of pre-procurement preparation were caused for delay. | When submitting the documents to Tender Board for appointment of a TEC, PTS is initially attached. As per PTS at folio 2- a, it was planned to scrutinize the bid document by TEC on 02.10.2019 and TEC had been scrutinized bid document by their report dated 01.11.2019 and submitted to SCM division on 09.01.2020. | Procurement should be completed in accordance with PTS before expiring the Bid validity period.    |
| (ii)  | It was observed that due to above cancellation the following losses/delays might be accrued.   | Agreed, It depends. But beyond AASL's control due to pandemic situation   | Expected outcome should be achieved by procuring without delay                                     |
|   | <ul style="list-style-type: none"> <li>• Electricity Expenses could not be reduced by solar electricity generations as expected.</li> </ul>  |   |  |

- The cost of new procurement might be increased
- Since the cancellation of this procurement, the requirements had to be postponed

The expenses and time incurred for procurement activities were uneconomical.

(c) **Supply of Cable Armoured 4 Core-CU/XLPE/SWA/PVC - At RMA**  
(Estimated cost is Rs.6.03 million.)

According to the information included in the procurement file, although purchase requisition made on the 16<sup>th</sup> December 2021 and the goods were received to the store on 03<sup>rd</sup> February 2023. It was observed that time taken for this procurement was nearly 13 months. Although it was planned to complete in the 04 months as per the Procurement Time Schedule. Keeping files unnecessarily without taking action and referring to the next level, file handing delays and lack of pre - procurement preparation were caused for delay.

Comment is not yet received

Procurement should be completed in accordance with PTS.

(d) **Supply of Cable Armoured 4 Core (120 SQ.mm) at RMA.**  
(Estimated cost is Rs.4.15 million)

(i) Although purchase requisition made on the 28<sup>th</sup> December 2021 and the goods were received to the store 03<sup>rd</sup> February 2023. It was observed that time taken for this procurement was 13 months. However, it was planned to complete with 3 months as per the procurement time schedule. Keeping files unnecessarily without taking action and referring to the next level, file handing delays and lack of pre-procurement preparation were caused for delay.

Comment is not yet received

Procurement should be completed in accordance with PTS.

- |       |   |   |   |
|-------|---|---|---|
| (ii)  | As a result of the delay of procurement process, estimated cost of the procurement had been increased from Rs. 4.15 million (Initials estimated cost) to Rs. 5.01 million when procurement was completed.   | Comment is not yet received   | Additional cost on procurement should be minimized by taking proper actions in procurement process                |
| (iii) | According to para No. 4.2.3 stage 2 (c) of procurement Guidelines 2006 Goods and works, once the PTS is agreed upon, the PC and TEC shall monitor the progress in consultation with PE. Where a major delay occurs, it is the responsibility of the PC to explain the causes for the delay, effect remedial measures and inform NPA. However, It was observed that there were major delays in activities of the above procurement. But, the procurement committee had not taken proper actions to minimize the unnecessary time delays. | The unexpected delays occurred due to COVID-19 situation which was beyond our control as it was globally affected. In order to expedite the procurement delays, we have been appointed a Procurement Committee to look into procurement matters and give suggestions to procurement delays. | It is responsibility of the procurement committee to take proper actions to minimize the unnecessary time delays. |
| (iv)  | According to the para1.2.1(a) & (d) of procurement guidelines 2006 goods and works, the procurement process should ensure maximizing economy, timeliness and quality in procurement resulting in least cost together with the high quality and expeditious execution of works and delivery of goods and services. However, it was observed that procurement process had not ensured above matters.  | As a result of the COVID-19 pandemic, all government/private sector companies were compelled to change their business plan, administration work plan to maintain only their day-to-day activities.  | It should be ensured maximizing of economy, timeliness and quality in procurement process.                        |