

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Civil Aviation Authority of Sri Lanka (“Authority”) 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority 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 1.5 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.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Authority, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

| Non Compliance with the Reference to Particular Standard | Management Comment | Recommendation |
|---|---|--|
| (a) According to the Paragraph 16(b) of LKAS 16, the cost of an item of Property, Plant & Equipment comprises any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. Accordingly, the cost amounting to Rs.446,509,332 incurred for the Jaffna International Airport had been accounted under work in progress instead of accounting under Property, Plant Equipment nevertheless its operation has been started on 12 December 2022. | Payments for the construction of Jaffna International Airport have not yet been completed, and a completion certificate has not been issued to take the asset into the PPE. | Operation of the Jaffna airport has started. As per the LKAS 16, when the control risk and the benefit of the assets are transferred to the Authority, action should be taken to account them under PPE. Since the operation of the Jaffna airport has started the cost of the Jaffna airport should be accounted under PPE. |
| (b) As per the paragraph 34 of LKAS 16, the PPE should be revalued once in every 03 or 05 years. However, lands acquired from year 2002 to 2019 at a cost of Rs.576,826,244 had not been revalued by the Authority. | Only fully depreciated assets have been depreciated as mentioned under (b). Actions will be taken to revalue the lands during the year 2023. | Authority should comply to the LKAS 16. |

- | | | |
|---|---|---|
| <p>(c) As per the paragraph 36 of LKAS 16, if an item of PPE is revalued, the entire class of PPE to which that asset belongs shall be revalued. However, only a portion of the asset class had been revalued and the assets amounting to Rs.218,533,616 had not been revalued which belongs to the revalued assets class.</p> | <p>In the report of 2020, the Auditor General observed that “the Authority had not revalued the fully depreciated assets”. Accordingly, actions were taken to revalue fully depreciated assets only. Actions will be taken to revalue the lands during the year 2023 as per your observation.</p> | <p>Fully depreciated or not assets, if an item of PPE is revalued, the entire class of PPE to which that asset belongs shall be revalued.</p> |
| <p>(d) In terms of paragraph 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.50,159,458 relating to 614 items as at 31 December 2022 had not been reviewed and accounted as required by the standards.</p> | <p>Only fully depreciated assets have been depreciated as mentioned under (b). Actions will be taken to revalue the balance assets during the year 2023 as per your observation.</p> | <p>Should follow the paragraph 51 of the LKAS 16.</p> |
| <p>(e) Although financial impact of each case and details of cases should be disclosed in the financial statements regarding the cases filed against the Authority by external parties and against external parties by the Company as per the paragraph 86 and 91 of the Sri Lanka Accounting Standards No.37, Authority had not acted accordingly. It was observed that five (5) legal cases were existed as at 31 December 2022, but the Authority had not disclosed as required by the standard. The Authority had incurred a sum of Rs.2,405,039 as</p> | <p>Answer had not been submitted.</p> | <p>Should follow the paragraph 86 and 91 of the LKAS 37.</p> |

deposit with the court for an appeal cost and it had been accounted under the other debtors without separate identification of litigation expenses.

1.5.2 Accounting Deficiencies

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| <p>According to the paragraph 05 of Direction No. EL/01/2022, the exchange rate weekly announced by the Civil Aviation Authority should be applied for the Embarkation Levy Conversion. Although, the exchange rate at the date of sale should be applied for the conversion. Due to the application of incorrect exchange rates, the Authority had collected excess amount of Rs.496,424,251.74 from the Sri Lankan Airlines Limited for the period of 01 March to 15 July 2022. This amount had not been reimbursed up to date of this report. Further, the 2.5 percent of service charge income on Embarkation Levy collection had been overstated by Rs.3,061,282.89 for the year ended 31 December 2022</p> | <p>Sri Lankan Airlines had made this overpayment mistakenly. There is a large amount of outstanding from Sri Lankan Airlines. CAA has requested the consent of the Airline to set off the overpayment against the outstanding.</p> | <p>Embarkation Levy should be calculated correctly and collected and accounted accordingly.</p> |

1.5.3 Unreconciled Control Accounts or Records

| Item | As per Financial Statements Rs. | As per Corresponding Record Rs. | Difference Rs. | Management Comment | Recommendation |
|---|--|--|-------------------|--------------------------------|--|
| <p>The opening retained earning balance</p> | 4,029,697,348 | 7,731,684,323 | 3,701,986,977 | Answer had not been submitted. | Difference should be identified and accounted. |

1.5.4 Unauthorized Transactions

| Description of Unauthorized Transaction | Management Comment | Recommendation |
|---|---|--|
| <p>(a) A surcharges of US \$ 60 or a sum equivalents to that amount shall be levied in respect of every passenger ticket issued or sold outside Sri Lanka for air travel originating in Sri Lanka should be collected and credit such surcharge so levied to the Consolidated Fund as per the regulation 07 and 08 of the Extra Ordinary Gazette of the Democratic Socialist Republic of Sri Lanka (Special) No.1550/7 dated 22 May 2008. However, surcharge collected during the year 2008 to 2022 aggregating to Rs.16,981,667,778 had been recognized as income of the Authority without been credited to the Consolidated Fund by the Authority. Further, no information is available to audit to ascertain whether the surcharges collected during the year 2002 to 2007 had been credited to the Consolidated Fund.</p> | <p>The Director General of Civil Aviation (DGCA) has acted in terms of Section 12 (2) (c) of this Act, by crediting the Authority fund the amounts collected from the Airlines as Overseas Sales Surcharge. DGCA is not empowered to maintain any collection account in order to collect and directly remit to the Treasury except the Fund of the Authority. Since the said surcharge is neither the tariff or nor the levy was not gazette under any Finance Act. From year 2008 to 2022 aggregate of OSS received Rs.16,981,667,778 by the Authority is deemed to be an income to the Authority which was represented in Revenue Statements up to date. CAASL has remitted to the Government Treasury in terms of section 10(5) of Finance act No.38 of 1971 without deviating “Appropriation of net surplus revenues of public Corporation” as at to date.</p> | <p>According to the gazette every airlines issuing or selling a passenger tickets shall collect and credited such surcharge so levied to the Consolidated Fund in such manner as may be specified by the Director General of Civil Aviation. Accordingly, Manner should be declared by the Director General of Civil Aviation.</p> |
| <p>(b) According to the Section 14.5.1 and 14.8.2 (IV) of the Manual of the Authority, the interest rate on property loan and vehicle loan is 7 percent. However, the Authority has charged only 4.2 percent on the property loan and vehicle loan at the inception of the Manual come to active. As a result, the loan</p> | <p>The Board of Authority decided to reduce the interest rate to 4.2%. As per clause 1.10 A, the Board has the Authority to amend any part of SLCAP 5000, which is not a matter</p> | <p>The Cabinet approved Manual may be amended by the Authority when deemed necessary and such amendments needs approval of the</p> |

interest income amounting to Rs.2,108,585 had been lost to the Authority during the year under review.

coming under the general review of the General Treasury and only the revision of loan amounts by the Authority requires the approval of the General Treasury.

Ministry of Finance and Planning prior to implementation as per the clause 1.10 of the Manual.

(c) The form specified in the direction No.El/01/2022 issued by the Director General of Civil Aviation had not been used for the collection of Embarkation Levy from each airline. Hence, the Authority had failed to check and verify the accuracy of the Embarkation Levy remitted by each airline. As a result, it was unable to verify the date of sale of the airlines tickets and the accuracy of the Embarkation Levy remitted on the air tickets sale amounting to Rs.1,650,432,347 during the year under review.

CAA introduced a form which contains the date of issue of tickets. But Airlines informed that it is difficult to generate that report from the Airline systems. Hence the CAA is developing fully automated system called “Embarkation Levy Management System” to collect and verify the Embarkation Levy. The System will be completed during the year 2023.

The Authority should check and verify the accuracy of the Embarkation Levy remitted by each airline through a formal mechanism.

1.5.5 Documentary Evidences not Made Available for Audit

| Item not Available | Amount | Evidence not Available | Management Comment | Recommendation |
|-------------------------------|---------------|------------------------|---|---|
| | Rs. | | | |
| (a) Trade and Other Payables. | 1,196,747,459 | Confirmation Letters | The Authority has sent letters to all debtors and creditors requesting to send balance confirmations with a copy to the Audit Superintendent. | Post review should be carried out on debtors and creditors not confirmed. |
| (b) Trade receivables | 1,524,761,412 | | | |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| <p>The Value Added Tax (Input tax) receivable from the Department of Inland Revenue up to 31 December 2022 was Rs.255,416,974. Even though several discussions were held with the Inland Revenue Department to get refund, no final decision had been taken. Hence, the recoverability of this input tax is doubtful. However, no provision for impairment or disclosure had been made in the financial statements of the year under review in this regard.</p> | <p>Department of Inland Revenue has already completed VAT Audit for years up to 2016 and issued refund notices of Rs.51 million. The Large Tax Payer Unit (LTU 6) started the audit process years after 2016.</p> | <p>VAT refund should be confirmed with the Inland Revenue Department.</p> |

1.6.2 Payables

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| <p>Although Social Security Contribution Levy amounting to Rs.1,567,314 on the service charge on Embarkation Levy should be paid to the Inland Revenue Department with effect from 01 October 2022. However, no provision or payment had been made in this regard.</p> | <p>Service Charge on Embarkation Levy is not liable for SSCL reasoning that statutory charges imposed by the government are not liable for SSCL. Further Department of Fiscal Policy has confirmed to Department of Inland Revenue that Embarkation Levy is a government levy which cannot be liable for VAT and SSCL.</p> | <p>According to the letter No. ACT 3/25 and dated 18 October 2022 SSCL 2.5% applicable in respect of the liable turnover and service charge on Embarkation Levy considered as turnover of the Authority. Therefore, the Authority should pay the Social Security Contribution Levy amounting to Rs.1,567,314.</p> |

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

| Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation |
|---|--|---|---|
| (a) Civil Aviation Authority of Sri Lanka Act No.34 of 2002 | (i) Section 7(c) Although the Aviation Development Plan for Sri Lanka should be prepared by the Authority, it had not been prepared even as at the date of this report. | First draft of the National Aviation Development Plan has been handed over to the Minister of Ports, Shipping and Civil Aviation and has been published on the CAA website for the views of the Stake Holders. | Authority should follow the Civil Aviation Authority of Sri Lanka Act No.34 of 2002. |
| (ii)Section 9 | Action had not been taken by the Authority to publish an order of assets vesting 14 aerodromes mentioned in the Second Schedule and 08 aeronautical facilities and the land pertaining thereto mentioned in the Third Schedule of the Act in the gazette by the year 2016. 15 years elapsed after the Act came into force, a gazette notification was published in 2017, mentioning that 02 aerodromes and 07 aeronautical facilities and the land related to the Katunayaka and Rathmalana Airport to be transferred and vested to the Authority. Further, gazette related to the Palali Airport and the Batticaloa Airport had been published in | Until the Minister gazettes the properties, no action can be taken relevant to the properties listed in the Third Schedule. Following the Gazette published in 2017, CAASL has taken a series of actions to complete the administration process of vesting and transferring process. The administrative functions required for re-gazetting the boundaries and obtaining the properties as a Government grant are in progress which takes a more extended period with the involvement of various government | 15 years elapsed after the Act came into force, first gazette notification was published in 2017. By the date of 15 May 2023, 21 years had passed, but the assets vesting procedures had not fully completed and therefore the Authority should involve efficiently to assets vesting procedures. |

2019 and in 2022 respectively. By the date of 15 May 2023, 21 years had passed, but action had not been taken to gazette the remaining airports mentioned in the Act.

organizations and a series of actions needed.

(iii) Section 12
(1), (2), (3)

According to the Section 12 (1) Act, the Civil Aviation Authority shall have its own fund and all such sums of money received by way of the fees, charges, loans, donations, gifts and grants in the (a), (b), (c), (d), and (e) of the Section 12(2) shall be paid into the fund. According to the Section 3 of the Act defray expenses and contribution mentioned in the (a), (b) and (c) of the Section 12(3) shall be paid out of the Fund of the Authority. However, the Authority had not maintained a separate Fund as per the Civil Aviation Authority of Sri Lanka Act No. 34 of 2002 and not accounted the income and expenses mentioned above and not presented in the Financial Statements of the Authority.

The activities of the Fund Account shows in the Statement of Comprehensive Income. The balance of the Fund Account shows as the "Retained Earnings" in the Statement of Financial Position and the Statement of Equity. Authority has no mandate to maintain the separate fund other than its own fund as per section 12 (2) of the Civil Aviation Authority Act No; 34 of 2002.

According to the Act of the CAASL Separate fund should be maintained.

(b) Public
Enterprise
Circular No;
01/2021 and
dated 17
November
2021

(i) Section 2.3

Although the procedure manuals of the CAASL should be reviewed and updated at least once in 5 years. However, the Authority had not failed to review and updated 44 manuals

Section 2.3 of the Operational Manual for State-owned Enterprises does not specify 05 years. However, as per the decision taken at the

The Authority should comply to the Circular.

as required by the circular.

180th Board Meeting held on 02nd April 2022, has reviewed the manual, and the committee's findings and recommendations have been forwarded for further processing. Manuals of Technical Sections are only amended/revised when related ICAO publications are updated.

(ii) Section 3.2 Contrary to the circular provision, professional allowance of Rs.7,387,000 incentive of Rs.10,062,500, managerial allowance of Rs.13,800,000 and interim allowance of Rs.43,147,983 aggregating to Rs.74,397,483 had been paid to the officers of the Authority without the approval of the Department of Management Services.

Department of Management Services has approved the Professional (Technical) Allowances. The Board of Directors have approved the other allowances in terms of powers vested by the Civil Aviation Authority Act No. 34 of 2003.

The Authority should obtain approval from the Department of Management Services for the allowances mentioned in the audit para.

(iii) Section 3.11 The transfer of all property related to the 14 aerodromes mentioned in the second schedule and 08 aeronautical facilities and the land pertaining thereto mentioned in the third schedule of the Civil Aviation Authority of Sri Lanka Act No. 34 of 2002 is one of the main activity of the Authority and core activities of the public owned entity cannot be outsourced. However, the Authority had appointed designated officer without complying with the circular. Further, selection of

As per Act no 34 Civil Aviation Authority Act in 2002, part 11, Section 7, sub-sections (u) and (v), clearly mentioned that the service of consultants and advisors can be appointed by this authority and determine the payment for that services. Based on that legal provisions, the said Designated officer has been appointed by the approval of the 180th Board Meeting of CAASL.

Entire process of property vested to the Authority is seems to be core activities of the Authority. Therefore, Authority should act as per the Circular.

outsourcing partners should be carried out in compliance with the procurement procedures as per the Section 3.11 of the Manual issued under Circular No; 01/2021. However, the Authority had not followed the procurement procedures in selecting and appointing the designated officer for the period from 02 March 2022 to 01 March 2023.

- | | | | |
|---|--|---|--|
| (c) Section 3 (x) of the National Budget Circular No. 03/2022 dated 26 April 2022 | Although the loan facilities provided to the staff officers had been suspended from 26 April 2022. However, contrary to that the Authority had granted loans amounting to Rs.33,414,981 to 60 staff officers of the Authority. | The circular explicitly states that the suspension applies only to granting loan facilities under the Public Officers Advance Account for the year 2022. I would like to emphasize that this Authority does not rely on the Public Officers Advance Accounts to provide loan facilities to its employees. As a result, the mentioned clause in the circular does not apply to this Authority. | This circular addressed the public corporation and according to the provision in the circular loan facilities provided to the staff officers had been suspended. The manual should be updated. |
| (d) Financial Regulation (i) 215 | A balance of Rs.12,509,901 had been paid before availing the services as at 31 December of the year under review. In that amount payment of Rs.1,664,056 had made against the plant and machinery maintenance and this prepayment remained more than a year but the work had not been completed up to now. | These are pre-payments made for service agreements which continue more than one year. | Authority should act as per the FR 215. |

- (ii) 571 Deposit received from third parties as at 01 January 2022 was Rs.1,768,635 and from this balance Rs.1,283,544 had been transferred to the miscellaneous income during the year under review without inquiries made from the deposit holders and without confirming that they are not requesting.
- This Authority receives foreign remittances for various approvals, and customers send money with some extras for exchange rate differences and Bank charges. Those customers do not reclaim those extras. CAA keeps that money in a “Common – deposit” account for a further year to recover any losses from those customers and transfer them to miscellaneous income.
- Authority should act as per the FR 571.
- (e) Section 13.3 of Manual of Staff and Administrative Rules According to the Financial Regulations 755 Before any officer who is otherwise entrusted with the custody of particular Government property resign his duties, he should hand over to his successor. However, as per provision in the Cabinet approved Manual of the Authority, the apparatus issued to an employee for official use may be sold when he retired or separating from the Authority. Accordingly no apparatus had been assigned to the officers but three laptops had been issued to the three officers when they separating from the Authority.
- The Authority has applied provisions under section 13.1 in the Staff Rules and Administrative manual of the CAASL, which the Cabinet has approved.
- According to the manual apparatus issued to an employee for official use may be sold. Therefore apparatus should have to be assigned to the officers who entitled.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.2,743,243,673 and the corresponding profit in the preceding year amounted to Rs.329,898,389. Therefore an improvement amounting to Rs.2,413,345,284 of the financial result was observed. The reasons for the improvement are increase in operating income by Rs.3,140,052,967 and increase in other operating income by Rs.460,516,143.

2.2 Trend Analysis of Major Income and Expenditure Items

| | 2022 ----- Rs.Mn | 2021 ----- Rs.Mn | Variance ----- Rs.Mn | % |
|--|------------------------|------------------------|----------------------------|------------|
| Operating Income | 3,685,224,914 | 993,344,282 | 2,691,880,632 | 271 |
| Overseas Sales Surcharge | 3,376,434,208 | 892,315,495 | 2,484,118,713 | 278 |
| Service Charge of Embarkation Levy | 227,543,076 | 33,339,951 | 194,203,125 | 582 |
| Income from Regulatory Services | 81,247,630 | 67,688,837 | 13,558,793 | 20 |
| Non-operating Income | 583,077,759 | 134,905,424 | 448,172,335 | 332 |
| Total Income | 4,268,302,673 | 1,128,249,706 | 3,140,052,967 | 278 |
| Staff Expenses | 457,965,055 | 356,754,794 | 101,210,261 | 28 |
| Administration and Other Expenses | 260,886,367 | 195,510,215 | 65,376,152 | 33 |

The following observations are made.

- (i) As compared with the preceding year, the total income for the year under review has increased by Rs.3,140,052,967 equivalent to 278 per cent. Overseas Sales Surcharge amounting to Rs.3,276,434,208 has considered as the Authorities main income without crediting to the Consolidated Fund. This income has increased by Rs.2,484,118,713 compared to preceding year equivalent to 278 per cent.
- (ii) Staff and administration expenses were increased by Rs.101,210,261 and Rs.65,376,152 respectively compared with the preceding year.

2.3 Ratio Analysis

| | 2022 ----- | 2021 ----- |
|----------------------------|---------------|---------------|
| Current Assets Ratio | 1: 2.34 | 1:2.05 |
| Net Profit Ratio | 64% | 29% |
| Return on Capital Employed | 42% | 7% |

- (i) The current ratio of the year 2021 was 1:2.05 and it has increased to 1:2.34 by the end of the year under review. This is mainly due to increase in treasury bills investment by Rs.1,958,516,968.
- (ii) Net profit ratio has increased due to increase in income of the Authority.

(iii) Return on capital employed has increased by 42 per cent compared to the preceding year.

3. Operational Review

3.1 Management Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| (a) As per Section 1.4 of the Manual of staff and administrative rules of the Authority, the rules of Corporate Governance of CAASL has consist three main parts, such as staff and administrative rules, corporate rules and Financial rules. Although the Corporate Rules, Financial Rules should be issued separately as per the Manual, these rules had not been issued up to the date of this report. | Corporate Rules have been issued. Financial Rules have been drafted and will be issued after obtaining relevant approvals. | Authority should act as per Section 1.4 of the Manual of staff and administrative rules of the Authority. |
| (b) The aeronautical facilities and land appertaining included in the Third Schedule of the Civil Aviation Authority of Sri Lanka Act No. 34 of 2002 had been allowed to use for the Airport & Aviation Services (Pvt) Ltd without a lease agreement and charging rental fee. | Ownership of these lands is yet to be transferred to the CAA. Properties will be leased or rented after that. | Authority should entered into the lease agreement with the Airport & Aviation Services (Pvt) Ltd and charge rental fee on aeronautical facilities and land appertaining included in the Third Schedule. |

3.2 Operational Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| Advance receivable amounting Rs.173,958,796 had remained over one year without been settled. However, actions had not been taken to get settled these advance even as at the end of the year under review. | Airport and Aviation Services Ltd is yet to settle these advances. | Advance should be settled within the specified time period or relevant programme is over. |

3.3 Transactions of Contentious Nature

| Audit Issue | Management Comment | Recommendation |
|--|---|--|
| <p>(a) As per the agreement signed between the CAASL and the designated office in respect of vesting the 14 aerodromes and aeronautical facilities a sum of Rs.2,000 shall pay per every completed one hour provided that designated officer has worked for at least four hours per day. However, it was unable to ensure whether the designated office has worked as mentioned above since officer covered his duties in sites and other offices. Further, the accuracy of the payment made to designated officer amounting to Rs.13,000,000 could not be ascertained in audit since the details about the attendance and the work performed had not submitted for audit. Further, transport expenses amounting to Rs.92,340 had been reimbursed contrary to the agreement.</p> | <p>Designated Officers are not required to mark attendance and completion of their work assignments are supervise and certified by the sectional heads. Especially the work assigned to this officer can't be completed confined to an office room. Board has approved 120 hours per month. Clause 6 of the agreement signed on 11.04.2022 was amended and transportation shall be provided by CAASL when necessary. considering the above.</p> | <p>Payments had not been based on the task basis and payment had been made on working hours. Therefore to confirm working hours attendance should be maintained.</p> |
| <p>(b) For the purpose of improving domestic air transportation, it was planned to establish three new domestic airports at Digana, Badulla and Puttalam through PPP arrangements in the National Budget 2016. Accordingly, a sum of Rs.2,013,605 had been incurred as at 31 December 2022 by the Authority for the survey plans and preparation of Environmental Impact Assessment (EIA) for Badulla Airport and at the present</p> | <p>CAA implemented the policy decisions of the government and due to the change of government the development work not moved forward.</p> | <p>Progress of the development should be reviewed.</p> |

construction of these three airports had been paused.

3.4 Procurement Management

| Audit Issue | Management Comment | Recommendation |
|---|--|--|
| <p>The cost estimate to refurbish the No. 09 Quarters of Civil Aviation Authority of Sri Lanka was Rs.15,000,000 and an advertisement fee of Rs.282,554 had been paid on bid calling under National Competitive Bidding method. However, the Authority had not selected a contractor to refurbish the quarter and refurbishment was carried out under supervision of the technical assistance of the Authority staff and the cost incurred on refurbishment as at the end of the year under review was Rs.2,666,818 and the refurbishment had not completed even as at the date of this report.</p> | <p>Bids were invited to refurbish No: 09 quarters under the National Competitive Bidding Method, and the TEC recommended supplier quoted Rs.36.5 million. An administrative decision had been taken to complete the task using internal expertise and completed the project at less than 10% of the bid price, following procurement guidelines.</p> | <p>Authority should follow the procurement guidelines.</p> |