

Airport and Aviation Services (Sri Lanka) (Private) Limited - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Airport and Aviation Services (Sri Lanka) (Private) Limited(AASL) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with 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 the basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, 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.

1.3 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 had 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.

(b) I draw attention to Note No.29 which explains material contingencies as at end of the year. As per the circular dated 12 April 2022 on "Interim policy regarding the service of Sri Lanka's external public debt" issued by the Ministry of Finance, direction was given not to settle foreign loans obtained by the Government entities. This adversely affected the ongoing constructions of BIA Development Phase II Stage 2 Project (Package A – Construction of Passenger Terminal Building & Associated works) as the contractor refused to continue the project since JICA stopped the loan disbursements with the issuance of the circular.

JICA has also requested an endorsement from Ministry of Finance regarding the continuation of loan repayments. Since that endorsement was not given by the Ministry of Finance due to IMF restructuring programme, the Contractor Taisei Corporation terminated the contract with AASL, with effect from 09 December 2022.

As part of the way forward, Action plan of the project, with the approval of the Cabinet of Ministers, AASL initiated action to carry out an identified scope of work of the above project to address the issue of deterioration of steel reinforcements in halfway completed structures of the above project utilizing funds from AASL with an approximate cost estimate of Rs.800 million.

In addition, the Consultant for the project is in the process of evaluating the statement of payment on Termination as submitted by the Contractor, on 29 May 2023 amounting to JPY 13,608,871,178 and Rs.10,045,759,810. This amount is after deducting all previously paid IPCs and advance payment but including the unpaid IPC 5 and IPC 6 (amount to JPY 444,498,046 and LKR 1,486,804,716).

In addition to the above-claimed sum, the Contractor's monthly running cost up to finalization of the claim and financing charges for the delayed payments will be accrued to the final claim.

As per the ongoing evaluation of the above claim that is being carried out by the Consultant, it is expected that the final evaluated amount of the claim may reach around USD 55 million.

Further, there are many materials and equipment valued at Rs. 1,660 million in overseas locations and most of them are at the partially completed stage. With the recommendation of the Committees appointed by the Chairman of AASL and also with the recommendation of the Consultant, the decision on whether to bring them to Sri Lanka or dispose at overseas locations are being finalized.

It is anticipated that with the settlement of due payments to the terminated Contractor, the balance available amount of the JICA loan will not be sufficient to complete the total remaining scope of Package 'A' works. Accordingly, it is necessary to obtain additional funding to carry out the remaining scope of the balance work of this project.

Further, with the termination of the Project, the services of the Consultant, had to be retained for the conclusion of the termination process including the evaluation of the claim, preparation of re-bidding documents, supervision of identified scope of works etc. as additional services which have been claimed by the Consultant, under the proposed Amendment No. 3 to the Contract for Design and Post Design Consultancy services. As these claims are not finalized, management is in the view of not making a provision at the moment.

My opinion is not modified in respect of these matters.

1.4 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.

1.5 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.

1.6 Financial Statements

1.6.1 Non-Compliance with Sri Lanka Accounting Standard

Audit Issue	Management Comment	Recommendation
(a) The value of the project and the aggregate value of three Procurements used for the operating activities of the Company during the period 2022 to 2023 were Rs 4,761 million and Rs.1,544 million respectively. However, the cost of the project and procurements had been shown as work- in- progress (WIP) and goods in transit account in the statement of financial position, instead of capitalizing and depreciating as required by the paragraph 7 and 55 of Sri Lanka Accounting Standard No.16.	<p>Part of Package B Project, Capitalized in February 2024, and remaining balance will be capitalized in May 2024 after receiving the final bill.</p> <p>Procurement</p> <p>a) The completion of payments will be done when FAC is issued as per the Contract. This is the reason for having a future payment to be made to the Contractor,</p> <p>b) The commissioned operational system had not been capitalized as financial Assets yet as there was an internal agreement to be finalized between Finance Division and E&ANE regarding the method of capitalization of Software based projects and immediate actions will be taken to capitalize the AIM system as individual items, as per the chairman's instruction</p> <p>c) Similar to above</p>	As per the Sri Lanka Accounting Standards, when the future economic benefit associated with assets will flow to the entity and cost can be measured reliably, actions should be taken to identify the assets and depreciation should be made as per the accounting policy.
(b) According to the SLFRS 16, in relation to the long term lease lands, at inception of a contract, the Company assesses whether a contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the company uses the definition of a lease in SLFRS 16, then, the Company should recognizes a right-of-use asset and a lease liability at the lease commencement date. However, in	As per the section 5 of SLFRS 16, lease liability recognition exemption is granted for lessee for leases on which the underlining asset is of low value. Also section 06 explains if a lessee elects not to apply the recognition requirements, the lessor shall recognize the lease payments as an expenses. AASL has applied the same procedure as annual lease payment after the year 2061 is only Rs.5.9Mn and onetime payment for the year 2061 is Rs.17.8Mn.Once discount this annual rental payment at the rate of 10%, the present value of lease payment will be only Rs.50,554 & Rs.151,663.	It is required to comply with the requirement of the SLFRS 16

relation to the lease land of staff holiday bungalow at Katharagama with extent of 0.561 hectare taken from GOSL for 30 years commencing from 2008 had not been accounted as mentioned in SLFRS 16 other than disclosure in note No. 11 (ii) under the Property Plant and Equipment.

1.6.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
According to the accounting policy on financial liabilities, debentures should be measured subsequently at amortized cost using the effective interest method. However, debentures of Rs. 4,000 million had not been measured and accounted accordingly.	Calculation done for amortized cost using effective interest rate. Difference is Rs.164 Mn which is not material	It is required to comply with the requirement of the accounting policy.

1.6.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) 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 21 December 2017 transfer and vest in the Civil Aviation Authority of Sri Lanka (CAASL) aerodromes 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. However, The Company had invested a sum of Rs.60,141 million (Carrying Value of the Property, Plant and Equipment & Work in Progress) from the date of Company formed in 1983 to as at 31 December 2023 for the development of the infrastructure of Air Ports as a statutory service provider without	With ref. to the second Audit & Management Committee (AMC) held 21.06.2023, Secretary, Ministry to the Ports, Shipping & Aviation -Chairman of AMC, has stated that though the ownership of lands are vested with CAASL, AASL being the only operator there are no barriers for AASL to carry out its investments and accordingly,	Investment should be done only after the getting approval from the relevant Authority and higher level discussion should be started regarding this matter

getting the concurrence from the CAASL. Therefore, the ownership of the buildings shown in the financial statements of the company is not cleared.

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| (b) | According to the Cabinet decision No. අමුණ/23/0154/604 /014 dated 07 February 2023, AASL required to sign a MoU with Government of Sri Lanka (GOSL) and adjust the books of accounts pertaining to the foreign loan amounting to Rs.33,676 million equivalent to USS 102.4 million shown in the financial statements. And it is also required to remit debt servicing instalments amount equal to the Rs.2,946 million to the General Treasury. However, the company had failed to sign the MOU and adjust the books of accounts and remit loan instalments to the General Treasury. | AASL sent the letter dated 22nd December 2023 to Ministry of Finance requesting to send the cabinet decision and the draft MOU. No response received to date.

These adjustments can be done only upon signing the MOU with the Ministry of Finance.

Further, with the GOSL Interim debt policy, AASL is not permitted to repay these bi-lateral foreign loans. Loan repayments can be done only upon signing the MOU with the Ministry of Finance which needs to be sent by the Ministry of Finance. | Discussion should be started with the General Treasury regarding the signing of MOU. After signing the MOU, adjustment of books of accounts pertaining to the foreign loan and remittance of debt servicing instalments should be done. |
| (c) | The Project Management Unit had handed-over 19 vehicles to the company by their letter No. PMU/BIADP/07(PK/b)/04845/22 dated 28 February 2022. However, action had not been taken to value and account them in the financial statements. | After completion of the package B, Committee was appointed to capitalize the assets in December 2023. All 19 vehicles have been capitalized in February 2024. | Actions should be taken to value the vehicles on time and, Depreciation should be made from the date of economic benefits flow to the entity. |
| (d) | The assets belonging to business lounge at MRIA amounting to Rs.25, 683,713 had been shown as WIP from the inception of the airport, without being capitalized. | Air Conditioners physically verified and will be capitalized in May 2024. It has been noted that furniture have been already capitalized with the initial MRIA project capitalization. Entries will be passed accordingly. | Assets should be identified separately and depreciation should be made from the date of economic benefits flow to the entity. |
| (e) | The lightning and surge protection system for mast, antenna, multicoupler valued at Rs.5.1 million at the Kandapola receiving station had been shown financial statements as at 31 December 2023. However, during the physical verification done by the audit it was revealed that the above equipment were not in the site. | This system is underground surge protection network which was laid 3 feet under the ground at the Thalangama receiving station. This land and buildings were taken over by MOD there was no practical possibility for AASL to excavate the large | Physical existence of the asset should be verified by the entity to identify the whether it is available or not. If it is not available required adjustments should be made after obtaining the proper |

ground areas of these antenna approval.
fields and buildings to unearth
the copper strip and rods.
Therefore, it is recommended to
remove this item from the ERP
assets register, following the
formal process.

1.6.4 Unauthorized Transactions

Audit Issue	Management Comment	Recommendation
<p>(a) All-inclusive maximum bonus payment of Rs.125,000 per employees for the year 2023 was granted by the Cabinet of Ministers on 11 December 2023 and according to the section 2.1 of the circular No. PED 04/2023 and dated 11 December 2023, When a mid-term allowances which can be considered as a bonus has been paid by any institution to its employees, it should be considered as an advance of the annual bonus paid at the end of the year unless the cabinet of ministers has granted a special approval to consider such payment as an additional bonus. Further, as per the section 4 of the internal memo issued by the company, it was decided to deduct the interim advance of Rs.50,000 paid per employee in April 2023 (aggregating bonus of Rs.177,843,750 for 3,569 employees) from the salary as an instalments of Rs.5,000. However, above interim allowances had not been deducted from annual bonus or salary by the company yet.</p>	<p>Due to the tax impact, take home bonus values of the staff even including Heads of Divisions had been drastically reduced at the time making the year-end bonus payment in December 2023. Therefore, it was not deducted as a full payment during the December itself since then some staff had to pay back the bonus advance to the company. Considering this impact from the staff point of view, at the Board meeting held in January 2024, it was decided to deduct this amount in monthly installments with effect from April 2024. Subsequently, on the instructions of the Secretary to the Line Ministry, Management decided to temporary withhold deduction of April 2024 installment.</p>	<p>As per the circular instruction, interim allowances paid to employees should be recovered.</p>
<p>(b) Maintenance, Repair and Overhauling (MRO) at Mattala As per the Cabinet Paper No,CP/13/1254/545/011-I and dated 28th August 2013 and the cabinet decision dated 05th September 2013, approval has been granted to enter into a supplementary agreement to execute additional work for the above project at a total cost of US\$ 122,030,389.</p>		

Accordingly, AASL has entered into a supplementary agreement to principal agreements (Contract of Hambantota International Development Project Signed on 27th November 2009) signed for MRIA, on 06 September 2013 with China Harbor Engineering Company Limited (CHEC). The following observations are made in this regards.

Although AASL had requested for funding, China EXIM Bank had refused to provide.

- (i) According to the section No.01 of the supplementary agreement, the agreement will come into effect only upon a date to be notified by the Employer to the Contractor subsequent to the Government of People's Republic of China Providing credit funding acceptable to the GOSL for the said works. However, AASL had not been obtained the above facility. Therefore the agreement was not binding on the parties, because the concession loan with EXIM Bank of China as a condition precedent for effecting the commercial contract for the above project had not been taken by the company. Subsequently, a commencement order had been issued by the Chairman of the Company on 03 October 2013 to CHEC and accordingly, CHEC had commenced construction of new gate lounge at Passenger Terminal Building (PTB) without validating the agreement.

Construction work should be started after signing the valid agreement.

These values have been recommended by a committee appointed by the Secretary to the State ministry of Tourism

- (ii) CHEC had submitted the interim payment application No.01 on 04th September 2016 for US\$ 4,499,635. However, the committee appointed in this regard had noted that there was a discrepancy in the claim submitted by CHEC. Further, CHEC had claimed a sum of US\$ 4,936,069 as delayed interest. As per the decision given by the committee appointed by the secretary of State Ministry of Tourism

Payment for bills should be made only based on the approval & certification of the engineer for approved designed work.

by Letter No. MMEZD/AV/04/AASL-MRIADEV and supplementary report of revaluation after discussion with secretary to the Ministry of Ports, Shipping and Aviation, bill value of US\$ 1,650,378 equivalent to Rs.565,491,077 was recommended by the committee. Finally, CHEC and AASL had agreed to pay the above amount by three instalments and paid on the basis of “Quantum of Merit” without certified by the engineer and not to pay the delayed interest. However, it was observed that out of above, a sum of Rs. 187,603,537. (US\$ 547,524) was uneconomical. Because, most of the design would not be appropriated for today’s context and construction of building was not yet started.

1.7 Accounts Receivables and payables

1.7.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) The landing and parking trade debtors (International), amounting to Rs. 2,077,949,728 had remained outstanding over 1 to over 5 years without been recovered. According to the management comments, Minister of Port, Shipping and Aviation had given the approval to waive off interest changes on Landing and Parking from Sri Lankan airlines.	Landing and Parking (International) trade debtors over one year balances mainly includes following debtors. Sri Lankan Airlines – Action will be taken to clear this as per the Ministry approval to waive off Aero Lanka (Pvt) Ltd – The Ministry by letter dated 23/08/2022 has recommended writing-off of dues of Aero Lanka (Pvt) Ltd up to 31/10/2020 to the Director General of Department of Public Enterprises and letter dated 19/3/2024 sent to the Ministry requesting the details on current position.	Possibility of collecting long outstanding debtors should be assessed with the help of legal division of the company and suitable actions should be taken by considering the recommendation of the legal division.
	Lion Air (Pvt) Ltd – Board approval granted to accept the balance due amounting to Rs.744,983.17 in the agreement dated 29/6/2004 and to write-off any balance subject to the Ministry approval. A letter dated 26/4/2022 sent to the Ministry	

requesting the approval to write off the balance.

Sri Lanka Air force

Board approval was not granted and requested to write to SLAF requesting the payment. Informed the Ministry by letter dated 7/3/2023 to intervene in the recovery.

- | (b) | <p>The landing and parking trade debtors (Domestic), amounting to Rs. 60,317,615 had remained outstanding over 1 to 5 years without been recovered. According to the management comments, Minister of Port, Shipping and Aviation had given the approval to waive off interest changes on Landing and Parking from Sri Lankan airlines.</p> | <p>Over more than 1 year balances mainly includes following debtors,</p> <table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Name of the debtor</th> <th style="text-align: right;">Over 1 year (Rs.)</th> </tr> </thead> <tbody> <tr> <td>LionAir(Pvt) Ltd</td> <td style="text-align: right;">44,908,978</td> </tr> <tr> <td>Sri Lanka Airforce</td> <td style="text-align: right;">7,348,031</td> </tr> <tr> <td>AeroLanka (Pvt) Ltd</td> <td style="text-align: right;">6,942,233</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">59,199,242</td> </tr> </tbody> </table> | Name of the debtor | Over 1 year (Rs.) | LionAir(Pvt) Ltd | 44,908,978 | Sri Lanka Airforce | 7,348,031 | AeroLanka (Pvt) Ltd | 6,942,233 | Total | 59,199,242 | <p>Possibility of collecting long outstanding debtors should be assessed with the help of legal division of the company and suitable actions should be taken by considering the recommendation of the legal division.</p> |
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| Name of the debtor | Over 1 year (Rs.) | | | | | | | | | | | | |
| LionAir(Pvt) Ltd | 44,908,978 | | | | | | | | | | | | |
| Sri Lanka Airforce | 7,348,031 | | | | | | | | | | | | |
| AeroLanka (Pvt) Ltd | 6,942,233 | | | | | | | | | | | | |
| Total | 59,199,242 | | | | | | | | | | | | |
| (c) | <p>The rental debtors amounting to Rs. 322,831,492 had remained outstanding over 1 to 5 years without been recovered. According to the management comments, Minister of Port, Shipping and Aviation had given the approval to waive off interest changes on rental debtors from Sri Lankan airlines.</p> | <p>Out of said accumulated rental major portion of outstanding comprising of Rs.154,273,501.70 belongs to the Default Interest of Sri Lankan Airlines whereas which shall be waived-off as per the approval granted by the Minister of Ports, Shipping & Aviation. Further, an amount of Rs. 74,919,514.05 where AASL has referred same to the Attorney General. Further, Rs.25,294,776.00 is which was disputed prior and as per the recent directive from Board of Directors, now AASL have initiated the process of recovering the same.</p> | <p>Possibility of collecting long outstanding debtors should be assessed with the help of legal division of the company and suitable actions should be taken by considering the recommendation of the legal division.</p> | | | | | | | | | | |

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| (d) | Aerobridge debtors amounting to Rs. 375,633,848 had remained outstanding over 1 to 5 years without been recovered. According to the management comments, Minister of Port, Shipping and Aviation had given the approval to waive off interest changes on aerobridge debtors from Sri Lankan airlines. | Over one year debtors mainly includes SLA amounting to Rs.347,577,561 and action will be taken to waive off the default interest as per the Ministry approval. | Possibility of collecting long outstanding debtors should be assessed with the help of legal division of the company and suitable actions should be taken by considering the recommendation of the legal division. |
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1.7.2 Payables

Audit Issue	Management Comment	Recommendation
(a) A sum of Rs. 133 million including Rs. 48 million within 03 – 06 months, Rs. 13 million within 06 – 12 months and Rs. 72 million over 01 year, received from debtors as over payment had been shown in the financial statements of the year under review, without refunding or off setting against respective debtors.	Customer over payments over 90 days - Current are over payments made by customers and these balances will be set-off against future invoices with the consent of customers.	Actions should be taken to identify long outstanding credit balances. After that required adjustment should be made to clear those credit balances.
(b) Company shall retain from each payment due to the contractor a specified amount as retention money and on the completion of the works half the total amount retained shall be repaid to the contractor and the balance half shall be retained until the expiry of the defects liability period. However, a sum of Rs.411 million had not been released to the contractors even after the laps of the period more than 03 years from the completion of the contract. It consists Rs.357.7 million within 3-4 years and Rs.19.5 million within 5-6 years and Rs.33.7 million was more than 7 years. According to the comment above retention balance as at 15 May 2024 was Rs. 400.7 million.	Retention money will be released to the contractor on the request of the contractor and the receipt of the recommendation of the Head of Project to release the payment after the completion of defect rectification works. Accordingly, the above amount is remaining until completion of defect liability period. During the period from 01.01.2024 to 15.05.2024 a sum of Rs.10,393,353/- has been released to the contractor. Action will be taken to write back over 5 years retention money to the income statement during the year 2024 with necessary approvals.	Actions should be taken to identify long outstanding retention balances. After that necessary actions should be taken to clear those retention balances with the approval of higher level authority.

- (c) Although, refundable deposit on procurement should be released after the awarding of contract. However, a sum of Rs.23,294,120 had not been released to the contractors even after the laps of the period more than 06 months from the awarding of the contract. It consists Rs.760,618 within 6-12 months, Rs.950,500 within 1-2 years, Rs.4,350,354 was within 3-4 years. Rs.17,232,648 was more than 5 years.
- Refundable deposits are released upon receiving the request and original receipt from the bidders. AASL had made refunds for all requests submitted by bidders. Although AASL had informed bidders to submit the requests, some bidders have not submitted the required documents. Hence these deposits are still available with AASL.
- Actions should be taken to identify long outstanding refundable deposit balances and clear those balances with the approval of higher level authority.

1.7.3 Advances

Audit Issue	Management Comment	Recommendation
Although the supplier advances & cash 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 66.5 million and Rs.9.8 million for supplier and cash advances respectively prevailing more than six months obtained for purchasing of goods during year and preceding years by various division of the Company had not been settled.	Advance settlements could not be done as practiced in the past due to the non-availability of required items in the market with import restrictions and higher prices for the available items. Continuous follow-up action will be taken to clear all long outstanding supplier advances by coordinating with the relevant Heads of Divisions.	Supplier & Cash advances should be cleared without delay after getting the source and supporting documents from the relevant divisions.
	<u>Cash Advances</u> Out of the unsettled cash advance of Rs.9.8 Mn currently outstanding as of 15.05.2024 is Rs.957,800/- which was released in November & December 2024.	

1.8 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 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	i. 115 liters is eligible for any other officers who hold a post approved or above HM 1-1 category of the company. However, 130 average liters for 130 officers of S ₁₀ salary scale and 200 liters for 206	Comprehensively examining this matter considering its nature and the specific business requirements of AASL.	Action should be taken to comply with the circular instructions or to get the approval from Ministry of Finance for payment of additional fuel allocation.

officers of S₁₁ (above salary scale had been given by the company (the above salary scales had been approved by the Company). As revealed in sample audit test, 235,865 liters of fuel amounting to Rs.84 million had been given to 336 officers during the year under review as monthly fuel allowances in excess in contrary to the circular provisions.

ii. Monthly fuel limit of 135 liters is eligible for Head of the Divisions (Ex:- Chief Operations Officer/Chief Financial Officer) of the company. However, from 136 liters to 373 liters per month for 19 Head of the Divisions had been approved by the company. As revalued in sample audit test, 10,142 liters of fuel amounting to Rs3.6 million had been given during the year under review in excess in contrary to the circular provisions.

The management will take a decision after comprehensively examining this matter considering its nature and the specific business requirements of AASL.

Action should be taken to comply with the circular instructions or to get the approval from Ministry of Finance for payment of additional fuel allocation.

(b) Paragraph 2.6 (Use of e-GP Portal for “Shopping” Procedure) of circular PFD Circular No. 08/2019 and dated 17 December 2019 issued by the Ministry of Finance, Economy and Policy Development

All the procurement planned to be processed by PEs under the Shopping procedure should be processed through the e-GP system gradually by PEs beginning 01 January 2020. However, e-GP Portal for shopping procedure was not followed by the company yet.

A team appointed by AASL in coordination with Treasury in this respect and AASL team participated for two meetings arranged by the Treasury. Treasury agreed to arrange a special meeting for the state owned companies who are using ERP to discuss and see the possibility to implement

Action should be taken to comply with the circular requirement.

e-GP integrating to existing ERP System.

- (c) Public Enterprises Circular No. 01/2021 and dated 16th November 2021– Guideline on Corporate Governance for State Owned Enterprises Section 2.2.2 (b) V
- The Board of Directors (BOD) ensure that appointments of CEO and as per the section 2.1, wherever the roles of Chairman and Chief Executive Officer (CEO) are combined through the relevant statute or the AOA, the relevant BOD must initiate action to split the two roles through an amendment to the statute or the AOA, Based on this background, higher salary scale (S-14) of the pay structure should be allocated for CEO. However, higher salary scale (S-14) was allocated for Head of Division. Further, CEO had not been appointed yet.
- The Executive Director position identified by the AoA of AASL can be considered and is similar to the CEO position as stipulated in Guidelines on Corporate Governance and therefore it is not necessary to amend the AoA to introduce a CEO position.
- Action should be taken to comply with the circular requirement.
- (d) Public Enterprises Circular No. 01/2021 - and dated 16th November 2021–Operational Manual for state owned Enterprises.
(i) Section 3.2 (i)
- 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 Enterprise (DGPE) or Director General Department of National Budget (DGNB) as applicable. However, above
- SORP is being finalized. The HR & Remuneration committee is being reviewed all the SORPs. Considering the specific business requirements of AASL, it is required to carefully review all the SORPs considering the available and requirement of appropriate qualifications.
- Approval should be obtained from the Director General, Department of Management Services

requirements had not been fulfilled by the Company except taking the board approval for the Scheme of recruitments of the Company. Subsequently, pay structure and allowances had been approved by the Ministry of Finance, Economic, Stabilization and National Policies by letter No. PED\S\AASL\1\06(i) and dated 01 January 2024 with effect from 01 January 2024 without approving the full SOR. Further, approval of Director General, Department of Management Services had not been obtained for the 10 different types of allowances to staff aggregating to Rs.213 million for the year under review, except the Board approval.

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|-------------------|---|---|---|
| (ii) 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. However, according to the comment given by the auditee above requirements has been fulfilled in the newly drafted SOR. | All the areas mentioned under this section have been incorporated in to new SORP format. | Action should be taken to comply with the circular requirement. |
| (iii) Section 5.3 | At least thirty (30) percent of the profit after tax should be distributed to the consolidated fund/shareholders, baring satisfied the solvency test as stipulated in the company Act, | Board approved dividends based on the request from General Treasury after considering the cash flow requirement for all | Action should be taken to comply with the circular requirement. |

No.07 of 2007. The company had recorded Rs 28,121 million profit after tax for the year ended 2023 and accordingly, a sum of Rs 8,436 million should be distributed to the consolidated fund. However, the company had distributed only Rs. 5,000 million and no provision had been made for the payable amounting to Rs 3,436 million and distributed.

Further, the company had recorded Rs. 4,802 million profit after tax for the year ended 31 December 2022 and accordingly, a sum of Rs.1,440 million should be distributed. However, the company had distributed only Rs.1,000 million to the consolidated fund.

airport development projects and already approved capital and operational budgets for the year concern.

(iv) Section 7.1 and 7.4

The performance evaluations are mandatory at all SOEs and it should be established simple and clear mechanisms that facilitate the establishment of performance evaluations linked to the achievement of the expected objectives and the compliance to the above requirement physical and financial progress of projects/contracts should be forwarded to examine at the monthly Board meetings. However, the progress report of action plan had not been forwarded to the monthly Board meetings, other than forwarded to the quarterly meetings held.

Agreed with the finding on the present practice. We do submit it on quarterly basis to the board, as it is the accepted frequency by the board and at divisional level owing to the fact that monthly evaluations are time consuming and the administrative burden of conducting them is expensive in terms of time as there is no sophisticated MI system to obtain the real-time information until Project Module is introduced under the ERP Phase 2.

Action should be taken to comply with the circular requirement.

1.9 Cash Management

Audit Issue	Management Comment	Recommendation
(a) A sum of Rs.14.8 million shown in the bank reconciliation statement as unrealized deposit represents the financial fraud committed by Management Assistant of airport management division from cash collected by issuing entry passes. However, this amount is not yet settled as at 31 December 2023. According to the management comment, the case is still under investigation and court case is processing on the fraud.	Since the investigation and court case is processing, no action was taken to adjust records. Further, though Rs. 14.8 million is remaining under unrealized deposit in bank rec 406 relating to the fraud there are deposits made by the same officer in BOC 406 bank account amounting to Rs.6.6million. Accordingly, the net unrealized amount is Rs.8.2 million. However, advice from the Board of Directors will be sought, if any treatment needed to record before the court decision is made.	Action should be taken against the fraudsters and required adjustment should be made after finalization of the court case.
(b) A sum of Rs.6,877,838 deposited directly to the bank account for the period from 09 November 2022 to 13 December 2023 had recognized as "credit without supporting document/bank credit" of the bank reconciliation statement as at 31 March 2024.	Credit without supporting document of Rs.81,880 as at 30/04/2024 for the remaining amounts, already requested information from the bank. If no details received, action will be taken to write back them to profit and loss account.	Action should be taken to identify the credit balances with the help of the other divisions and adjust in the accounts.

1.10 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, no deduction shall be allowed for an expenses of a capital nature. However, when calculating the assessable income from business, a sum of Rs.1,475 million paid to General Treasury by the Company for loan repayment during the year under review had been deducted without obtaining 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 2022/23 had been understated by Rs.442.5 million.	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 concern as such.	Formal approval from the IRD should be taken to deduct the loan repayment made to treasury when calculating the income tax.

- (b) A sum of Rs.823.2 million shown as income tax receivable from the assessment year 2013/2014 to 2021/2022, in respect of withholding taxes, income tax paid and notional taxes in the statement of financial position of the Company as at 31 December 2023. However, as per the interim audit report of Department of Inland Revenue had confirmed that a sum of Rs.321.4 million out of 571.6 million may be returned subject to a detailed audit in its statement dated 09 January 2023. Therefore, realization of the income tax receivable amounting to Rs.250 million is uncertain.
- Even though IRD has issued a refund notice, still this amount is not finalized and now default division of IRD is checking tax defaults against this refund and on 22nd November 2023 they have sent us a default notice of Rs, 603.8Mn. On the same date we informed non availability of any defaults from AASL but referring to tax returns of previous years. On 7th May 2024 we have again requested inland revenue to clear their system issues and release the refund.
- Confirmation for tax receivable should be called from IRD and if it is not confirmed, accounts should be adjusted accordingly.
- Action will be taken to pass entries upon their responses
- (c) As per the cabinet decision No.CMN/13/1254/545/011-1 and dated 28th August 2013, approval of the cabinet was granted to initiate necessary actions to list this additional work contract relating MRO at Mattala to approve as strategic development project under the Board of Investments (BOI) and to authorize the secretary to the Ministry of Finance and Planning to exempt the nominated contractor from paying taxes. Further it was also suggested the same by the Minister of Finance and Planning under his observation. Nevertheless, necessary actions had not been taken in term of section 3 (4) of the Strategic Development Project Act No.14 of 2008 to exempt the tax. Therefore, a sum of Rs.79,386,492 equivalent to US\$ 247,556 had been paid to contractor on 28 July 2023 even though there was a possibility to exempt from the tax.
- Although approval of the Cabinet had been granted to initiate necessary actions to list the MRO Project approved as Strategic Development Project, this project had not been continued as the Supplement agreement was not effective due to not receiving funds from the China EXIM Bank. Hence the project had not been gazetted as a SDP and accordingly tax exemptions had not been granted.
- Requirements of the Cabinet decision should be fulfilled without delay even in the future to get the maximum benefit to the company
- (d) The Chairman of the company had informed to the Secretary of Ministry of Ports, Shipping and Aviation by his letter dated 18 July 2023 about the following recommendations made by Mechanical Engineering regarding MRO payments.
- As stated earlier, the MRO project had not been gazetted as a SDP. Commissioner of IRD informed that the VAT is exempted only if the Project had been gazetted with the approval of the Parliament, which was not available.
- Recommendations made by the subject engineer should be considered and fulfilled when payment is made.

- Payments of VAT can be recommended if CHEC rectified all leakages of fire network and operate with minimum acceptable leakages for one year period.
- If above requirement cannot be done, entire fire network will have to be replaced by CHEC, Which would cost around Rs. 800 million.

However, Company had released the VAT Payment of Rs 79,386,492 on 28 July 2023 without considering the above recommendations.

VAT payment was made on 28th July 2023 after obtaining approval from the Board of Directors. Further AASL was able to recover around 75% of the VAT payment made, as recoverable VAT. Also, it should be noted that VAT should be paid along with invoice payment. Hence further delaying the VAT payment would have led to substantial penalties imposed by IRD and AASL wouldn't have been able to recover the same.

2. Financial Review

2.1 Financial Result

Description	2023	2022	Variance	Percentage of Variance
	Rs.	Rs.	Rs.	%
Revenue	38,375,829,636	27,576,799,457	10,799,030,179	39
Aeronautical Revenue	7,575,143,036	6,135,995,731	1,439,147,305	23
Non Aeronautical Revenue	30,670,641,452	19,800,402,953	10,870,238,499	55
Other Income	130,045,148	1,640,400,773	(1,510,355,625)	(92)
Finance Income	10,428,195,594	6,206,671,289	4,221,524,305	68
Administration & Establishment Expenses	19,061,158,765	14,941,498,625	4,119,660,140	28
Staff cost	7,467,364,871	7,424,239,181	43,125,690	1
Repairs & Maintenance	1,880,496,451	475,950,365	1,404,546,086	295
Finance Cost	14,324,407,728	(6,202,274,842)	20,526,682,570	331
Exchange gain /(loss) (On loans)	15,204,613,135	(43,977,059,211)	59,181,672,346	13457

The operating result of the year under review amounted to a profit of Rs.28,121,654,931 and the corresponding profit in the preceding year amounted to Rs.4,802,697,597. Therefore, an improvement amounting to Rs. 23,318,957,334 of the financial result was observed. The main reasons for the improvement are increase in revenue by Rs.10,799,030,179 that is 39 percent, increase in finance income by Rs. 4,221,524,305 that is 68 percent and increased in net finance income by RS. 20,526,682,570 that is 331 percent compared with the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

The following observations are made.

- The increase of the Non Aeronautical Revenue and Finance Income by 55 and 68 percent respectively as compared to the preceding year.
- Repairs & Maintenance cost had increased by 295 percent with compared to the preceding year.
- Exchange gain / (loss) had increased by 13457 percent compared with the preceding year (due to devaluation of Sri Lanka Rupees against the foreign currency.)

2.3 Ratio Analysis

Type of Ratio	2023	2022	2021	2020	2019
Current Assets Ratio (number of times)	3.31	4.23	5.98	7.68	7.23
Quick Assets Ratio (number of times)	3.2	4.1	5.88	7.55	7.1
Leverage Ratio (Times)	1.39	2.44	1.66	1.38	1.38
Net Profit/ (Loss) Ratio (%)	73	17	-26	-31	43
Basic (Loss) / Earnings per Share (Rs.)	140,606	24,013	-10,417	-12,522	54,979
Return on total Assets (%)	15	3	-2	-2	10
Revenue per Passenger (Rs.)	5,083	5,024	5,234	3,373	2,580

The following observations are made.

- Current Assets Ratio and Quick Assets Ratio had decreased gradually from year 2020 to 2023. Increase in portion of current liability of borrowings by Rs.6,678 million and increase in trade and other payables by Rs.2,451 million and income tax payable by Rs. 2,024 million were the main reasons attributed for the decrease in Current Ratio and quick Assets Ratio.
- The earning per share had increased by 486 percent during the year mainly due to increasing the profit by 485 percent during the year under review.
- It was observed that the Leverage Ratio had decreased by 1.05 (Times) during the year under review.

3. Operational Review

3.1 Performance

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

Key Performance Indicator	2023	2022	2021	2020	2019
Number of International Flight Movements	46,639	37,641	21,204	20,881	62,195
Number of Total Passenger Movements	7,548,646	5,503,198	1,505,479	2,375,056	9,958,688
Cargo Movements (Metric Tons)	158,911	173,597	200,179	150,075	259,089
Overflying Movements (No's)	35,506	23,846	9,339	16,370	45,674
Total Cost per Flight Handled (Rs. '000)	325	727	574	738	235

While Number of International Flight Movements, No. of Total Passenger Movements and No. of Overflying Movements were gradually increased, the Cargo Movements was decreased. However, Total Cost per Flight Handled was decreased during the year under review as compared to the preceding year.

3.2 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
The commitment charges and project related expenses amounting to Rs.184 million incurred for the Construction of Passenger Terminal Building-II & Associated works during the project suspended period was uneconomical.	This project had to be terminated as JICA ceased disbursements with the issuance of GOSL Interim Debt Policy. Commitment charges and project related expenses have been charged to P&L with the suspension of the project.	Action should be taken to get the value for money by introducing a proper action plan and minimizing the unnecessary activities.

3.3 Identified Losses

Audit Issue	Management Comment	Recommendation
Although the requisition of the bill was forwarded in 2016 for MRO project, payment of bills was processed in 2022 and 2023. Due to delay in taking the decision to pay bills, exchange rate of LKR 146.03 per 1 US\$ as at 31 December 2016 had increased up to LKR 360 per 1 US\$ when it was settled. Therefore, the company had to incur the loss of Rs.324.5 million.	Although the bills had been sent in 2016, there were no approval or agreement to pay the bills. Necessary approvals had been granted to pay the bills only in 2022 with an agreed payment plan, after several negotiations with CHEC.	Actions should be taken to minimize the unnecessary exchange losses by making the payment of foreign currency on due time.

3.4 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The committees of board of survey were appointed to carry out the physical verification of PPE amounting to Rs.40,104.8 million (carrying value) as at 31 December 2023. It consist movable assets of Rs. 3,210.4 million (carrying value) and Rs. 36,894.4 million (carrying value) of non-movable assets. However, only movable assets of Rs. 38.8 million (carrying value) were physically verified by the committees as at 06 May 2024.	In year 2022 all non-moveable & movable assets are verified. Therefore non movable assets were not verified in year 2023, other than demolition. Non movable assets are remaining in the locations.	Annual Board of Survey should be carried out to verify the physical existence of the all assets.

(b) **Rental Income from Duty Free Shops**

- (i) According to the information available, average passenger movement of departures and arrivals for the year 2019 (before the Covid 19 period) was 830,222 nos. At that time, charges of rental was calculated by applying the conditions of agreement (that was 100%). However, during period of Covid 19, rental was not charged. Subsequently, total passenger movements were recovered gradually. With the increasing of passenger movement, company had charged rental income as a percentage of rental charge agreed from March 2021. Those rental charges collected were not matched with the percentage of recovery of passenger movement. Due to non-applying the correct recovery percentage of passenger movement in collecting the rental income, company had lost rental income of US \$ 460,803 for 02 duty free shops.
- The Core Category Duty Free Operator submitted their bid in year 2016 based on the passenger forecast given by AASL in the Bidding Document at the time of bidding with year-on-year (YoY) passenger growth of 6%. But, due to the Easter Bomb Attack, COVID-19 Pandemic and the Economic Recession in the Country, the passenger traffic has not ramped at BIA as anticipated and as a result, the expected sales volume of the Operator was not achieved where only 62% of passenger movements was recorded for the initial five (05) year contract period compared with the total passenger forecast estimated for the said 5 year period.
- Data analytical report should be forwarded to BOD to get the correct decisions.
- (ii) 70 percent out of the rental charge included in the agreement was charged from May 2022 to March 2023. At that time, monthly total passenger movement was in the range of 413,418 to 582,367. Subsequently, rate of rental charged was deducted up to 60 percent from April 2023 even though, monthly passenger movement was increased in the range of 582,654 to 684,452. Therefore, company has lost US \$ 91,445 due to 10 percent drop of rental income.
- After the Covid pandemic, AASL commenced charging the monthly rental at a percentage determined by the Company based on the passenger footfall compared to year 2018. However, it is observed that during the period January 2022 upto August 2023, AASL has both over-charged and under-charged from the Operator whereas during the said period AASL has over-charged an amount of USD 553,270/- from both Operators and undercharged USD 460,803/- which is claimed as a loss in the aforesaid report, Accordingly; it is evident that AASL has gained a revenue of USD 92,467/- instead of a loss, by over-charging both the operators.
- Data analytical report should be forwarded to BOD to get the correct decisions.

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| <p>(iii) According to the clause 3.15 of the agreement, the concessionaire shall submit to the company, documents certified by the Department of Sri Lanka Customs giving details of goods transferred to the feeder bond/s at the airport. The concessionaire shall allow and assist the company for reconciliation of goods based on such documents when the company needs to do so. However, documentary evidences were not provided for audit to assess whether above requirement has been fulfilled or not by the company.</p> | <p>Agree, as per the provision made available in the Existing Agreements of the Duty Free Shop Operators. However, Total Bonded warehouse operation including inventory movements within General Bond, Feeder Bond and Shops are being carried out under the direct supervision and purview of Sri Lanka Customs - Bonded Division. At a recent meeting held with SL Customs, it was discussed and agreed that said processes are being carried out in a highly secured area by them and as a result ensured that possibility for leakages have eliminated. Therefore, action shall be taken to amend the respective clause (3.15) in future Agreements entered between AASL and concessionaires.</p> | <p>It is required to comply with requirement of the agreement.</p> |
| <p>(iv) According to the clause 3.17 of the agreement, the concessionaire shall submit audited sales turnover statement with the monthly breakdown, within three months from the end of the financial year of the concessionaire. However, the audited sales turnover statement had not been submitted.</p> | <p>As per the provision in the Agreement, all Duty-Free Operators have been informed/reminded to submit the Audited Financial Statements pertaining to the sales turnover figures within three months from the end of each Financial Year.</p> | <p>It is required to comply with requirement of the agreement</p> |
| <p>(c) For the purpose of removing High Frequency Signal Transmission Station located at Thalagama, Akuregoda in 52 Acres and set it up in another suitable place it was given a land extend of 0.9431 hectares in Seetha Eliya forest reserve to the company. Further, another land located at near the Kandapola Receiving Station was handed over to the Company for constructing office premises, storage facilities and staff accommodation, no action had been taken to acquire the legal title of the land or to start the planned construction so far.</p> | <p>This project is on hold with the financial crisis due to Covid-19 pandemic.</p> | <p>Action should be taken to acquire the legal title of the land and to start the planned construction work.</p> |

3.5 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) Performance of Mattala Rajapaksha International Airport (MRIA) The operating cost of the MRJA in the year under review had recorded Rs.2,412.9 million and it was 08 times over the operating Income of Rs. 288 million. Further, the operating loss of the airport was Rs. 2,124.1 million and net profit after tax for the year under review was Rs.926.6 million mainly due to effect of the foreign exchange gain. The cumulative net losses after tax from year 2018 to 2023 was Rs.38,489 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 190,750 and total flight movements of last six years were 2,182. Hence, that a total sum of Rs.36,564 million equivalent to USD 247.7 million incurred for the construction of the airport including price escalation and variations had not effectively used. Further, a sum of Rs.1,590 million had been paid by AASL as the annual loan interest for the foreign debt of USD 190 million initially obtained for the above construction.</p>	<p>Presently Govt. restructuring process is going on. RFP was called for MRJA and the Cabinet has granted approval to handover the management of MRJA to Indian and Russian affiliated company for 30 year period. Due diligence is yet to commence and drafting the agreement is in progress.</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 as planned.</p>
<p>(b) Performance of Colombo International Airport, (CIAR) – Ratmalana The cumulative loss of the CIAR - Ratmalana from year 2018 to 2023 was Rs.2,608 million including the loss of the year under review amounting to Rs.38.7 million. The aircraft movements during the period 2020 to 2023 were 13, 13, 38 and 86 nos respectively and the passenger movements during year 2020 to 2023 were 60, 28, 54 and 12 Nos. respectively.</p>	<p>As per the financial statements the cost of the Area Control Centre (the location monitoring the over flying which generates a considerable revenue) in to the expenditure of CIAR and revenue of the area control center has been taken into the corporate revenue. AASL has identified the issue and made adjustments from 2023 onwards based on a board approval to record the overflying revenue also under the</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>

CIAR against the cost born by the same operations.

Further, CIAR is basically operating as a regional airport which is giving priority to the Domestic and training flight operations. Therefore, the airport performance may be based on the domestic and training flight movements and not accurate to be based on international flight movements.

(c) Performance of Jaffna International Airport (JIA)

- (i) The JIA had inaugurated on 17 October 2019. However, from the inception of the Airport, only 702 aircraft movements with 33,431 Nos. of passenger movements had taken place. The recorded cumulative loss during last past 05 years was Rs. 217.4 million including the net profit of Rs.15.4 million of year 2023. The revenue and the operating expenditure during the year under review were Rs.152.4 million and Rs.137.6 million respectively.
- Due to the Global pandemic conditions the GOSL had to take decision to hold the international flight operations had between JIA & Chennai. Therefore, until December 2022 no international flights operated to JIA. At present only one airline is operating Daily Flight movements between JIA & Chennai and another airline to commence daily operations from July 2024 onwards which will maximize the potential profit within limited infrastructure available at JIA.
- Action should be taken to operate and upgrade, Jaffna International Airport in more efficient and effective manner and to attract more airlines for future sustainability.
- (ii) The AASL had been instructed by the Director General of the Civil Aviation Authority, by his letter No. AE/1/3/(CA/19/162) and dated 13 June 2019 regarding the development and improvement of the Jaffna Airport as a regional international airport with the approval of the Cabinet of Ministers,. According to the letter, as per the recommendations of the working committee appointed by the Secretary of the Line Ministry, it was decided to develop the Jaffna Airport in 03 phases with immediate effect. Accordingly, the development of phase-II should be started immediately and ended on 01 December 2019. However, the development work had not been started yet.
- Agreed with the statement. However, Airport operations after completing Phase I was commenced in Oct. 2019 and operations were suspended due to COVID-19 pandemic and resumed in Dec. 2022.
- Action should be taken to fulfill the requirements of Cabinet decision & Committee report.

(iii) According to the strategic action plan of the company prepared for the period 2020-2024 by the marketing and communication division, it was planned to attract new airlines and to increase the frequencies of existing airlines to JIA. However, only one airline is operating in JIA. Further, when analysing the daily passenger's arrival and departure information of JIA, it was observed that necessity of developing a detailed marketing plan to increase a frequency of existing airline or to attract new airline for the purpose of increasing the income of JIA.

At present, the terminal and aerodrome capacities are limited. For example, the runway capacities are not capable of facilitating to accommodate larger aircraft such as A320 and other larger types of aircraft. AASL had successful B2B discussions with Indigo airlines and the airline has planned to commence scheduled international flights between Chennai and Jaffna from 1st of July 2024 onwards with daily frequency. The type of aircraft will be ATR 72.

Detailed marketing plan should be prepared to increase frequency of existing airline and attract new airlines.

(d) Performance of Batticaloa International Airport (BTIA)

The Batticaloa International Airport had reopened to civilians for operation on 25 March 2018 and a sum of Rs.86.6 million had been incurred as operating expenditure during last five years without generating income. Revenue earned during the year under review was Rs. 585,600 and operating expenditure incurred was Rs.18,997,068.

As a government decision through a Government Gazette Notification has waived off landing and parking charges at BTIA until the year 2023. Further, land allocations not properly completed and not handed over to AASL for commercial activities. The Ministry of Ports, Shipping and Aviation has floated RFP twice to find suitable investments for a aviation training operator for BTIA and not found a successful proponent. Currently AASL is taking actions to obtain cabinet approval to consider possible business investments to increase the revenue at BTIA.

Action should be taken to operate and upgrade Batticaloa International Airport in more efficient and effective manner and in a profitable way

(e) World Ranking of Airports

According to the information released about the world's airports by Airport Council International (ACI) World in 2018, out of 2583 airports in the world, Sri Lanka was in the 370th place in terms of total movement, the 205th place in terms of total passenger, and the 89th place in total cargo transportation. However, as per the ACI report of year 2022, out of 2677 airports, Sri Lanka was

- a) This is due to Easter Sunday attack in 2019 04 21 and its repercussions.
- b) Economic recession during this period of the country and its consequences.
- c) Covid pandemic situation of the country.

SWOT analysis should be conducted to identify the strength, weakness, opportunities and threat. After that actions should be taken to convert weakness into strength and capitalize the opportunities for growth of the company.

in the 548th place in terms of total movement, the 292th place in terms of total passenger, and the 116th place in total cargo transportation. It was observed that the world ranking is dropping when compared with 2018 figures. According to the comments given by the management, the reason for the dropping mainly was due to Easter Sunday attack and Covid pandemic situation etc.

Further, it is better to study the best practices and strategies used by the peer company for the purpose of growth of the entity.

(f) Asia Pacific Ranking of Airports

According to the information released about the world's airports by Airport Council International (ACI) in 2018, out of 852 Airports in the Asia Pacific, Sri Lanka was in the 104th place in terms of total movement, the 78th place in terms of total passenger, and the 34th place in total cargo transportation. However, as per the ACI report of year 2022, out of 2483 airports, Sri Lanka was in the 109th place in terms of total Movement, the 76th place in terms of total passenger, and the 30th place in total cargo transportation and audit observed that the Asia Pacific region ranking is dropping when compared with 2018 figures. According to the comments given by the management, the reason for the dropping mainly was due to Easter Sunday attack and Covid pandemic situation etc.

- a) This is due to Easter Sunday attack in 2019 04 21 and its repercussions.
- b) Economic recession during this period of the country and its consequences.
- c) 3. Covid pandemic situation of the country.

SWOT analysis should be conducted to identify the strength, weakness, opportunities and threat. After that actions should be taken to convert weakness into strength and capitalize the opportunities for growth of the company. Further, it is better to study the best practices and strategies used by the peer company for the purpose of growth of the entity.

3.6 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Four locations with the square feet 3293 of Mattala Rajapaksa International Airport (MRIA) had not been used to generate income for the company by renting out since inception of MRJA.	Bids were called in year 2021 for commercial operations at MRJA and two counter spaces were reserved for mobile communication services and other two spaces were reserved to establish Electronic and Electrical Home Appliances Duty Free shops. However a	Committee should be appointed to assess the available opportunities and to get recommendation. After that action should be taken accordingly.

bid was received for only Counter No.01 for mobile communication services and in year 2023 a request was received for the counter No: 02 and approval for the same was also obtained.

For both electrical shop operators failed to obtain required approval from the Sri Lanka Customs and Finance Ministry for the establishment of Duty Free shops for Arriving Passengers at MRIA. Accordingly the contracts were cancelled by the Tender Board.

Considering the prevailing scenario, at present only seasonal scheduled flights and charter flights are operating to MRIA carrying foreign passengers on tourism purposes. Hence, the passenger segment entitled for the above allowances are not being arrived to MRIA at present and accordingly; said duty-free operation of Electrical/ Home Appliances products are not commercially viable at MRIA.

3.7 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
(a) 173 Nos. of project at estimated cost of aggregating Rs. 29,593 million were planned to implement during the year under review. It consists 97 Nos. continuing projects, 32 Nos. new projects and 44 Nos. completed projects. The physical progress of the average cumulative target for all projects was 67 percent and target financial progress was 67 percent, However, actual was 28 percent and 16 Percent respectively. Further, 18 Nos. of project at estimated cost of aggregating Rs.1,842 million were postponed.	The issue has been internally identified and a Project Monitoring Committee has been appointed to monitor the progress of the projects. In addition, AASL is in the process of implementing e-Procurement with Finance Ministry. All possible steps will be taken to minimize future delays of the project implementation.	Special attention should be given to increase the physical progress by reviewing the contractor's implementation plan, daily work plan vs actual resource allocation and monthly progress reports.

(b) The approval was granted to award the Supply Installation and Commissioning of an Aeronautical Information Management System by the Decision of Cabinet of Ministers No. අමප/18/0035/709/002විවිආර් dated 31st January 2018. The contract was signed on 23rd March 2018 at a cost of 3,367,114 Euro and LKR. 74,771,034. According to the contract condition No.10, the completion period should be 12 months from the date of establishment of Letter of Credit to the date of issuance of Provisional Acceptance Certificate, the Letter of Credit was opened on 25th July 2018. Accordingly, although the provisional acceptance certificate had to be issued on 24 July 2019, it had been issued only on 23 June 2023. Therefore, the Project had been completed with a delay of more than 3 years and 10 months. In addition, the Company had not taken actions to claim for delays as per the section 11.03 of the contract agreement.

Aeronautical Information Management System – The delay in commissioning the system.

- a) The first force majeure scenario impacting the project was the Easter Sunday attack in April 2019
- b) Then the project was rescheduled and resumed after the travel bans were lifted. However, the project was again interrupted by the global Covid Pandemic.
- c) Due to the force majeure scenarios and severe staff shortage situation, AASL did not have the necessary staff to sufficiently attend to these project tasks. Meanwhile, due to the serious financial uncertainties for AASL due to rapid reduction of passenger movements as a result of above force majeure conditions, the due payments were delayed to the Contractor.

Action should be taken to minimize un necessary delays by following continuous review, monitoring and reporting to BOD regarding the reason for un necessary delay time to time, at least for high value procurements and projects. Further, aware the procurement committee & technical evaluation committee regarding the abnormal delays.

(c) **Design Fabrication, Supply, Installation and Commissioning of new Carrousel and Transfer Conveyor System**

As per the initial Procurement Time Schedule of above procurement, it was planned to complete the procurement on 16 February 2018. However, the final acceptance certificate had been issued on 25 September 2023. It was observed that time taken for this procurement was more than five years. Due to this delay, initial cost of the project of Rs. 70 million had increased up to Rs.81

Since the instruction provided by the Board of Directors is to urgently procure the necessary X-Ray machines in expedited manner under DPC 1, the security services division decided the minimal recommended number of X-Ray machines to be procured as 10 machines and the procurement was conducted with a Total Cost Estimate (TCE) of 200 million LKR. Anyway, when trying to make the Award of this tender, the cost suddenly escalated over

Action should be taken to minimize un necessary delays by following continuous review, monitoring and reporting to BOD about delays. At least for high value procurements and projects.

million when it is completed.

200 million LKR due to sudden change of foreign currency exchange rate in march 2022. Therefore, the anyway this procurement has been finally referred to Ministry level to obtain approval to make the Award, explaining the overall context.

(d) **Supply Installation and Commissioning of an Air Traffic Management System at BIA**

The approval was granted to award the above project by the Decision of Cabinet of Ministers No. අමප/18/0782/709/027ටීබීආර් dated 16 May 2018. The initial contract was signed on 14 August 2018 at a cost of 3,068,000 Euro and LKR. 127,294,260. According to the contract condition No.10, although the completion period should be 12 months from the date of establishment of Letter of Credit to the date of issuance of Provisional Acceptance Certificate, the Letter of Credit was opened on 09 October 2018. Accordingly, although the provisional acceptance certificate had to be issued on 08 October 2019, it had not been issued yet. Therefore, the completion of the project was delayed for more than 4 years. Further, the company had not taken actions to claim for delay as per the Section 11.03 of the contract agreement.

Installation of the equipment were partially completed when Covid19 started. Project could be resumed in 2021 according to the relaxation of health instructions. Installation teams were Covid infected and went under quarantine in 3 occasions. Now the new Air Traffic Management system is successfully providing service to manage BIA approach and Tower control traffic and AASL in the process of finalizing the necessary discussions, in order to issue the Provisional Acceptance Certificate (PAC) AASL has not imposed any LD on the Contractor yet, as there have been no unacceptable delays on the part of the Contractor. If AASL find any justifiable reason for imposing LD, AASL will take actions to impose LD on the Contractor in keeping with the Contractual Terms and Conditions.

Action should be taken to minimize unnecessary delays by following continuous review, monitoring and reporting to BOD about delay, at least for high value procurements and projects. Further, aware the relevant committee regarding the delays and actions should be taken to claim as per the conditions of the agreement.

(e) **Supply, Installation, Testing & commissioning of Network Based Public Address System at BIA**

As per the initial Procurement Time Schedule of above project, it was planned to award the procurement on 30 November 2018. However, the contract was not yet awarded up to the date of

Budget approval obtained in year 2017 for the sum of LKR 55 million to replace the essential obsolete components of the public address system. Subsequently BIA development project Phase 2 stage II bids were

Action should be taken to minimize unnecessary delays by following continuous review, monitoring and reporting to BOD

this report. It was observed that time taken for this contract was more than 05 years. Due to this delay initial estimated value of the procurement of Rs.55 million had increased up to Rs.271 million.

opened and product was selected. The TEC as well as the user division observed that the specifications of the offered product for the BIADP is having latest high level protocols and have seamless integration the system of existing terminal 1 shall be compatible with the protocols of the proposed system for BIADP. This made the considerable increase of the estimated cost from LKR 200 to LKR 300 million for year 2024.

The company management decided to differ this project time to time due to the financial situation of the country which was affected the above listed events too.

Current procurement process was started in September 2023 and the final recommendations (selecting a successful bidder) of the TEC was submitted to MPC on March 2024.

regarding the reason for un necessary delay time to time, at least for high value procurements and projects.

Further, aware the procurement committee & technical evaluation committee regarding the abnormal delays.

(f) **Construction of the Import Cargo Terminal Building” at the BIA**

As per the decision of the Cabinet on 05 October 2020, the contract for the above project was awarded to on 28 October 2020 at a total cost of Rs.2,367,421,227 + VAT, the construction period is 730 days and works commenced on 25th January 2021. Further, this project is identified as one of the Priority Projects to cater to the growth of cargo handling at BIA. However, Due to the Covid 19 pandemic and other related issues, the project cost is significantly increased and project cannot be completed within the initial contract price + 10% contingencies allocated for the project. Therefore, with this trend in the increase of prices of materials, it is forecasted that at the completion of the project, the project cost would reach Rs. 4,600

The revised project cost is Rs 4.6 billion and the approval of the Cabinet of Ministers for the revised Contract Sum of Rs 4.6 billion was received on 05th July 2023. The construction period is 730 Days. The Works commenced on 25th January 2021 and the physical progress up to 30th April 2024 is 93.5% and the revised date of completion is 21st December 2023.

Initially, the project progress was significantly hampered by the impact of the COVID-19 pandemic, along with prevailing economic challenges in the country past years, delays in establishing Letters of Credit (LC) due to severe shortages of foreign currency etc and the Engineer has recommended a 326-day extension of time, thereby shifting the revised completion date to the 21st of December 2023. Furthermore, the Contractor’s latest

Special attention should be given to increase the physical progress by reviewing the contractor’s implementation plan, daily work plan vs actual resource allocation and monthly progress reports.

million approximately and it was approved by the Cabinet decision No.

අමප/23/1084/628/050/විධිආර් & dated 05 July 2023. However, according to the initial agreement, project should be completed on 24 January 2023. Subsequently, two time extensions was given to complete on or before 29 August 2023. However, the physical progress as at 31 December 2023 was 88 percent and contract was not completed even as at 30 April 2024.

request for an extension of time, submitted on 30th April 2024, is under evaluation.

3.8 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) Supply Installation and Commissioning of X- RAY baggage Screening Machines		
(i) As per the initial Procurement Time Schedule of the above project at a cost of USD 610,274 and Rs.9, 740,000 + VAT, it was planned to complete the procurement on 26 August 2022. According to the contract condition No.12 although the completion period should be within 90 days from the date of establishment of Letter of Credit which was opened on 18 th April 2023. Accordingly, the provisional acceptance certificate had to be issued on 18 th July 2023, However, the provisional acceptance certificate had been issued on 08 rd January 2024. Therefore, the Project had been completed with a delay of more than six months.	Even though it was required to complete the project within 90 Days from LC, the global issues prevailed during that period had an impact on the completion time. There was a global shortage of semiconductor and materials which had impacted on the delivery of Test Pieces, Trays and Roll Conveyor which had a lead time till Aug 2023. This was informed to AASL by the supplier as the matter was beyond their control and considered during the approval was granted when LC extension was executed.	It is required to comply with requirements of procurement guideline at the inception.
(ii) Further, According to the Section 17 of the contract agreement, if the contractor fails to supply, install & commission of Baggage Screening	Chairman has agreed to extend the delivery period till 18/08/2023. Due to delay of arrival notice.	It is required to comply with requirements of procurement guideline at the inception.

Machine within the agreed completion period, he shall be liable to pay the buyer, one (01) percent of the total contract value per week of delay, subject to a maximum of ten (10) percent of the total contract value beyond the agreed date of the completion of the contract. However, the Company had not taken actions to claim for delay.

- (iii) According to the supplement 35 to the procurement manual issued on 25 March 2022, authority limits of Department procurement (DPC) committee is up to Rs.200 million for projects GOSL funded. However, when procuring above Machine, it was planned to procure 12 machines at an estimated cost of Rs.240 million and that amount was allocated in the budget of 2021. Accordingly, above procurement should be authorized by the Ministry Procurement Committee (MPC). Finally, Security Services division decided to procure 10 machines at a estimated cost of Rs.200 million as the approval limit of the DPC is Rs.200 million, without referring to MPC at the beginning of the procurement process. Therefore it was observed that authority limits had been violated by the procuring entity.
- Since the instruction provided by the Board of Directors is to urgently procure the necessary X-Ray machines in expedited manner under DPC 1, the security services division decided the minimal recommended number of X-Ray machines to be procured as 10 machines and the procurement was conducted with a Total Cost Estimate (TCE) of 200 million LKR. Anyway, when trying to make the Award of this tender, the cost suddenly escalated over 200 million LKR due to sudden change of foreign currency exchange rate in March 2022. Therefore, the anyway this procurement has been finally referred to Ministry level to obtain approval to make the Award, explaining the overall context.
- It is required to comply with requirements of procurement guideline at the inception.

(b) Responsibility of Procurement Committees

According to the para No.4.2.3 stage 2 (c) of procurement Guidelines 2006 Goods and work, 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

PCs will take actions to minimize delays

It is required to complete the activities of the procurement process in accordance with the procurement time schedule to avoid the unnecessary time delays.

explain the cause/s for the delay effect remedial measures. However, it was observed that there were major delays in activities of the above procurements. But, the procurement committee had not taken proper actions to minimize the unnecessary time delays.

3.9 Defects in Contract Administration

Audit Issue	Management Comment	Recommendation
<p>(a) Dedicated Access Road to Passenger Terminal at BIA The approval was granted by the Cabinet decision No. 20/0184/231/005 and dated 13 February 2020 for authorizing to obtain estimate for road development work from Road Development Authority (RDA) and award the above Contract to RDA. Accordingly, contract was signed between AASL and RDA on 10 February 2020 at a cost of Rs.185,819,135 (with VAT). According to the contract condition No.01, the contract period is six months from 13 December 2019. Although, the contract was completed, the final bill of the contract was not finalized and the performance certificate had not been issued yet.</p>	<p>As per conditions of contract, Taking over certificate to be issued based on the request of the Contractor and it has not been requested. There are some details pending from the Contractor to finalize the final payment.</p>	<p>Final bill of the contract should be finalized as per the conditions of the agreement.</p>
<p>(b) Temporary Terminal Building Cabinet paper No.19/1008/105/009 – I, and dated 18 march 2019 on “Development of the Palaly Airport for operation of the regional commercial flights” was considered along with the observations of the Minister of Finance and granted the approvals to the proposals included in the memorandum. In the observations of the Minister of Finance, it was mentioned to invite for bids under National Competitive Bidding (NCB) process for Temporary Terminal Building at a cost of Rs. 52,524,271, However, it had been followed Limited National Competitive Bidding (LNB) to select the contractor in contrary to the cabinet decision.</p>	<p>LNB has been carried out with the approval of the Chairman together with the list of Contractors.</p>	<p>It is required to comply with requirements of Cabinet decision and Treasury observation.</p>

(c) **Site Clearance of MRIA**

According to the section 11.11 (clearance of site) of the contract document of volume II of contract, signed between AASL and China Harbor Engineering Company Limited, "Upon receiving the Performance Certificate, the Contactor shall remove any remaining Contractor's Equipment, surplus material, wreckage, rubbish and Temporary Works from the Site. However, above requirement had not been fulfilled yet. Further, actions to charge rental fee on premises used by the contractor had not been taken by the company.

These materials are brought by the contractor with waive- offs customs duty and the balance items are still remain at the site. These materials has been handed over to AASL on 19 April 2022. Accordingly no rental could be charged.

Action should be taken to comply with the conditions of the agreement.

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

The above constructions works had been awarded to Contractor of Japan on 04 March 2020 and agreement was signed on 12 March 2020 and the performance security had been given on 25 March 2020. However, the contract work has been commenced on 15th December 2020 with 09 months delay due to covid 19 pandemic stated by management. Further, according to the contractor's implementation plan, the contract progress as at 31 December 2022 should be 30 percent. However, the actual progress of the contract was only 5.38 percent. Due to the policy decision taken by the Ministry of Finance regarding the servicing of external debts on 12 April 2022, the donor suspended all disbursements under the loan. As part of the way forward action plan of the project, with the approval of the Cabinet of Ministers, it had been initiated the action to carrying out an identified scope of work with an approximate cost estimate of Rs 800 million.

The Contract commencement was delayed up to 15th December 2020 due to the inability to mobilize Contractor's foreign staff due to Covid 19 pandemic, declaration of a complete lockdown from 15th March 2020 to 20th April 2020 and no guarantee in the pandemic situation for continuous uninterrupted construction works at the site even if the instruction to Commence Work was given to the Contractor before 15th December 2020 etc.

Higher level discussions should be started to assess the restarting of the project

At the examination of the procurement activities of Carrying out an Identified Scope of work of the project, the following observations are made.

The project is to complete and protect the partially completed structures of the terminated contract BIADP Phase II Stage 2 Package 'A' therefore, there is a requirement to continue the existing insurance and continue the same quality of work in order to make sure compliance with the next contractor and

(i) Initially, it was planned to call bids through National Competitive Bidding Procedure by packaging the above contract as per the information included in the file. However the company had called limited bids from two bidders by referring the decision taken by CANC for the

acceptance to the consultant and probably next Japanese main contractor. Therefore, it was decided to go with already approved subcontractors of the previous main contractor, in

above procurement at its meeting held 03rd February 2023. The estimated cost of above works is Rs.275 million including 10% contingencies. order to minimize future problems.

- (ii) The head of projects by his letter No.BIADP/P1152/4307/01 (PK.A) – 1052 and dated 01 March 2023, has informed to the engineers representative of consultant that the offer received from only one offerer at Rs. 640,276,768 and this price was exceeded the engineer estimate by Rs.365,276,768. Further, it also highlighted by the engineers representative of consultant in his letter No. IAS-NK/PMU/Pk. A/23/

1557 dated 07 March 2023 that the bid prices are 100 percent higher than the engineer's estimate. However, after negotiations, the letter of acceptance was issued on 31 May 2023 at a total cost of Rs 475,125,137 including 2.5 percent discount, 4.7 percent contingencies and VAT. It was observed that the variation of the contract price is higher than by 73 percent when compared with the engineer's estimate. Subsequently, as per the Cabinet paper No.23/1969/628/096 and dated 11 October 2023, an approval was given to carry out priority works of the project in small scale utilizing own funds by the Cabinet paper No. 23/0191/628/013 dated 8 March 2023. In addition, as per the way forward action plan of the project, company initiated the remaining scope of work of the project. The engineer estimate of the above work and priority work was Rs.3,300 million + VAT.

Engineer's estimate was revisited after receiving the bids as per the provisioning in the procurement guideline and the revised Engineer's estimate is Rs.475,125,137 including 10% contingencies + 15% VAT and the bids were evaluated against the revised Engineer's estimate and negotiated bid price as approved by the CANC.

Higher level discussions should be started to assess the restarting of the project

- (i) As per the observations of the Minister of Finance, Economic Stabilization & National Policies which had submitted to the Cabinet paper No.23/0451/628/021/TBR dated 23 February 2023, no objection was issued to soliciting bids by using a limited competitive bidding process by considering the urgency of completing the identified work as soon as possible to prevent further deterioration of steel reinforcement. Although the work was planned to be completed by December 2023, several requisitions to extend the time were made by the contractor.

The project was slightly delayed due to unavoidable physical condition in the site due to various factors such as weather and issues related to materials handing over and transition of previously terminated contractor and their subcontractors.

Higher level discussions should be started to assess the restarting of the project