

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Civil Aviation Authority of Sri Lanka (“Authority”) for the year ended 31 December 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Corporation’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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Audit Scope

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;

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

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Audit Issue	Management Comment	Recommendation
The residual value and the useful life of three buildings with a carrying value of Rs.4,193,585 as at 31 December 2023 had not been reviewed and accounted as per the paragraph 51 of the Sri Lanka Accounting Standard No. 16.	The CAA requested the Valuation Department to revalue land and buildings in PPE from August 2023, and reports are still pending due to boundary and ownership issues.	It is required to comply with the requirement of LKAS 16.

1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
Even though the income recognition policy of the Authority for service charge on Embarkation levy is an accrual basis, the Embarkation levy receivable amounting to Rs.11,070,728,696 from six (06) airlines as at 31 December 2023 had not been accounted. Therefore, the payable to the General Treasury, Sri Lanka Tourism Development Authority and the Airport & Aviation Services (Sri Lanka) (Private) Ltd had been understated by Rs.8,303,046,522, Rs.899,496,707 and Rs.1,798,993,414 respectively. Further, service charge on Embarkation levy income of the Authority had been understated by Rs.69,192,054.	CAA performs an intermediate role between airlines and the Treasury, collecting and disbursing the embarkation levies on behalf of the Treasury. Therefore the payable amount is shown under the Treasury Current Account.	It is required to comply with the requirement of the accounting policy.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Out of the Value-Added Tax (VAT) receivable amounting to Rs.136,799,321 from the Department of Inland Revenue up to 31 December, a sum of Rs.127,895,303 had been adjusted during the year as non-refundable VAT. However, no provision for impairment or disclosure had been made in the financial statements of the year under review though the recoverability of balance VAT receivable amount is doubtful.	50% of the receivable VAT balance has been cleared by the Department of Inland Revenue and Continuous follow-up actions are ongoing to clear the remaining amount. A provision will be made in the financial statement for the year 2024.	VAT refund should be confirmed with the Inland Revenue Department and if it is not confirmed provision for impairment or disclosure should be made in the financial statements.
(b) No provision had been made against the Social Security Contribution Levy (SSCL) amounting to Rs.10,679,705, which was recognized for the ascertainment of income tax with effect from 01 October 2022 as per Section 2(c) of the Social Security Contribution Act No. 25 of 2022 in the financial statement for the previous year and the year under review.	The Department of Inland Revenue issued a letter on 20.03.2023 and indicated that the service charge of Embarkation Levy is liable for SSCL. Based on that letter, IRD issued assessments on 01st October 2022. CAASL has appealed against the assessments, and IRD has not informed the final decision. Further, the Department of Fiscal Policy has confirmed to the Department of Inland Revenue that Embarkation Levy is a government levy which cannot be liable for VAT and SSCL	Requisition should be made in Writing to the Inland Revenue Department regarding the final decision and adjustments should be made in the financial statements accordingly.
(c) The Authority should be liable to pay a value-added tax of Rs.112,885,849 on service charge income on Embarkation Levy from the second quarter of 2016 to 31 December 2022 and a sum of Rs. 54,674,342 on service charge income of Rs. 364,495,666 for the year under review as per the section (j) of the first	The large taxpayer unit of the Department of Inland Revenue sent a letter and issued assessments for VAT, charging VAT on the Service charge of the Embarkation Levy. CAASL has appealed against the assessments, providing all the grounds that CAASL provides a service on behalf of the government, declaration of the Service Charge of the Embarkation Levy as excepted income, and Input Tax has been disallowed proportionately in the VAT returns.	Information should be called from the Inland Revenue Department regarding the appeal and their decision and adjustments should be made in the financial statements accordingly.

schedule of the Value Added Tax Act No. 14 of 2002. However, the total VAT payable amounting to Rs.167,560,191 had not been accounted.

(d) Equipment valued at Rs.1,772,902 had not been used for the operations of the Authority at the inception of the assets acquired and had remain in the stores and the health unit of the Authority. However, the Authority had fully depreciated those assets and revalued in the year 2022 and accounted accordingly. And also two vehicles valued at Rs.8,582,775 had remain idle in the premises of the Authority.

Below actions have been taken.

<i>Item</i>	<i>Value (Rs)</i>	<i>Actions Taken</i>
9 DVD players	28,089	Keeping to use at public exhibitions
15 LCD Monitors	39,136	Keeping to use at public exhibitions
Breath Analyzer tester for alcohol	1,705,677	This is a Donation from Japan. Action will be taken to finalise this matter.
KI-8168 Rexton Jeep	7,650,000	Action will be taken to finalise this matter
YM - 4182 Three-Wheeler	1,000,000	Action will be taken to finalise this matter
Total	10,422,902	

Authority should maintain a comprehensive database of all assets, including their location, condition, and usage history.

(e) Balance confirmation letters had been sent to the six (6) debtors having aggregate value of Rs.178,943,596 as at 31 December 2023. However, three (03) debtors having aggregate value of Rs.173,193,596 had not been confirmed and there were differences of Rs.473,184 between the balance confirmed and the balance in the ledger.

This Authority has sent letters to all debtors and creditors requesting to send balance confirmations with a copy to the Audit Superintendent.

Authority should review and improve the confirmation procedures to ensure that letters are sent to all debtors in a timely manner and inquire about any discrepancies between their records and the amounts stated in the confirmation letters.

(f) Out of the creditors having an aggregate value of Rs.232,644,548, the balances of twelve creditors having an aggregate value of Rs.124,902,383, could not be

This Authority has sent letters to all debtors and creditors requesting to send balance confirmations with a copy to the Audit Superintendent.

Authority should review and improve the confirmation procedures to ensure that letters are sent to all creditors in a timely manner.

verified due to the non-receipt of confirmations.

1.6 Receivables and Payables

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
In accordance with Paragraph 09 of Direction No. EL/01/2023, issued by the Director General of Civil Aviation on January 12, 2023, concerning the collection of Embarkation Levy, airlines that fail to remit payment within the stipulated timeframe as outlined in Paragraph 6 of the aforementioned direction are required to pay interest for each day of delay in addition to the total amount due. As of December 31, 2023, the Authority calculated delay interest amounting to Rs. 1,408,373,439 for outstanding Embarkation Levy from six airlines. However, the Authority has yet to recover these interest charges up to the date of this report.	Airlines did not apply the exchange rate relating to the flight date for calculating the embarkation levy except for a few incidents in which they did due to an oversight, but all these were rectified subsequently. Airlines that couldn't submit CAASL 015 – (23-1) provided conversion details in return based on the ticket issue date. The airlines had provided conversion rate details in the return based on the ticket issued date	Proper mechanism should be introduced to recover the Embarkation Levy.

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

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

Reference to Non-compliance Laws, Rules Regulations etc.	Management Comment	Recommendation
(a) Civil Aviation Authority of Sri Lanka Act No.34 of 2002		
(i) Section 7(c)	Although the Aviation Development Plan for Sri Lanka should be prepared by the Authority, it had not been	The Board of Directors of the Civil Aviation Authority should follow the Civil Aviation Authority of Sri Lanka Act No.34

prepared and approved even as at the date of this report.

for Cabinet approval to establish and implement a comprehensive 10-year Plan framework for Sri Lanka at its 197th Board meeting on 26th February 2024.

In the meantime, Airport & Aviation Services (SL) Limited has submitted a proposed amendment to the CAMP. CAASL is currently reviewing and considering the amendment, and after compiling the proposed changes, the CAMP will be submitted to the National Planning Committee and then to the Cabinet for approval.

(ii) Section 7(h)

Authority should initiate investigation on aircraft accidents occurred within the territory of Sri Lanka and as per the Section 56 of the Civil Aviation Act No.14 of 2010, by appointing an Aircraft Investigation Board (Board) consisting of Authority's staff. However, without appointing such a Board, the Authority had allocated Rs.20 million, Rs.10 million and Rs.20 million in the years 2006, 2009 and 2010 respectively to the accidental fund. In this regard the Cabinet has taken a decision by the Decision No. CP/16/375/709/063 dated 26 July 2016 to establish an Aircraft Accident Investigation Bureau of Sri Lanka and the Cabinet has approved to appoint a chairman with staff to the Bureau and at the same time to allocate a provision of Rs.50 million from the line Ministry budget or from the Authority and amend the Civil Aviation Act No.14 of 2010. However, Authority had not taken any action to adhere the

The cabinet decision to establish an independent Aircraft Accident Investigation Bureau (AAIB) was a corrective action proposed by the State in response to the finding raised by the ICAO Universal Safety Oversight Audit held in Sri Lanka.

This Authority has taken all necessary steps, since 2016 to enact the said legislation in consultation with the Legal Draftsman. It is now at the final stage.

As per the draft AAIB Bill, there are provisions to adopt the Organization Structure stipulated in the Cabinet Memorandum. Furthermore, there is a provision to have a fund of fifty million rupees annually, from the vote of the Ministry of the Minister assigned the subject of Civil Aviation. There is a provision in the draft AAIB Bill to repeal the relevant sections of the CA Act no 14 of 2010.

Authority should follow the Civil Aviation Authority of Sri Lanka Act No.34 of 2002.

direction of the Cabinet Decision.

(iii) Section 9

Action had not been taken by the Authority to publish an order of assets vesting 14 aerodromes mentioned in the Second Schedule and 08 aeronautical facilities and the land pertaining thereto mentioned in the Third Schedule of the Act in the gazette by the year 2016. Even though, 21 years had passed from the date of the Act, no action had been taken to gazette the 10 airports mentioned in the Act.

Following the Gazette published in 2017, CAASL has taken a series of actions to complete the administration process of vesting and transferring process. During these five years, Batticaloa Airport and three aeronautical facilities, including Radio Navigational Aid at Madampella, Aeronautical communication transmission station at Attidiya and Civil Aviation Training Centre at Kandawala, have been re-gazetted with clear boundaries of the properties through Extra Ordinary Gazettes No. 2293/33 of 17th August 2022 and No. 2320/63 of 23rd February 2023. Further, actions have been taken to re-gazette the remaining properties listed in the Extra Ordinary Gazette No. 2050/38 dated 21/12/2017. After following the requests made by this Authority, Divisional Secretaries of Ratmalana, Negombo, Nuwara Eliya and Katana took action to proceed with the amended gazettes. The administrative functions required for re-gazetting the boundaries and obtaining the properties as a Government grant are in progress which takes a more extended period with the involvement of various government organizations and a series of actions needed.

Authority should follow the Civil Aviation Authority of Sri Lanka Act No.34 of 2002.

(iv) Section 09 and Gazette of the Democratic Socialist Republic of Sri Lanka (Extra Ordinary) No. 2050/38 dated 21 December 2017.

Although, the Jaffna Airport has been transferred and vested in the Civil Aviation Authority by the Gazette and as per the approval given in the Cabinet meeting dated 02 April 2019 for No. CP/19/2008/105/009-1, and Jaffna airport started the operations as an international

Reply not received.

Authority should follow the Civil Aviation Authority of Sri Lanka Act No.34 of 2002.

airport on 17 October 2019. Authority had not completed the process of identifying the boundaries of 2962.18 acres lands of the Jaffna airport and published them through a gazette up to the date of this report.

- (b) Section 47 of the Employee Provident Fund (EPF) Act No. 15 of 1958, Section 44 of the Employee Trust Fund (ETF) Act No. 16 of 1980 and Public Enterprises Circular No. 02/2013 dated 11 September 2013
- Contrary to the earnings defined in the EPF and ETF Acts, the Authority has included 7 different types of allowances when calculating the contribution to the EPF and the ETF. due to this erroneous calculation a sum of Rs.125,145,338 has been over-credited to the Employees' Provident Fund and a sum of Rs.15,017,440 over credited to the Employees' Trust Fund for the sample audit period of 2020-2023.
- The Board instructed the CAA to write to the Commissioner of Labour to obtain an opinion/direction regarding whether the CAA allowances are included under the "earnings" under EPF Act No. 15 of 1958 and ETF Act No. 16 of 1980. CAA handed over the request to the Labour Department on 14.05.2024. The Department of Labour informed them that it would take reasonable time for them to provide clarification as they have to consult internally. As I informed you above, this Authority has considered these allowances for EPF and ETF purposes from its inception, and a sudden change would result in unrest among the CAA employees, which would disturb the CAA's functioning. CAASL is awaiting clarification from the Department of Labour, in the meantime the CAASL has taken steps to calculate the EPF & ETF as per the provisions in the Act.
- EPF and ETF Calculation should be done as per the definition included in the Act.
- (c) Gazette of the Democratic Socialist Republic of Sri Lanka (Extra Ordinary) No. 2314/16 dated 11 January 2023
- Seven (7) airlines had not furnish a bank guarantee or a sum of money amounting to Rs.3,776,266,598 as determined by the Director General as security for the money to be collected as Embarkation Levy.
- Airlines have provided Bank Guarantees as a security deposit for the Embarkation Levy. The mentioned list of airlines comprised the following;
- Those are not in active operation after obtaining schedule approval
 - Made cash deposits for the guarantee, and
 - That has more than one month to expire the given Bank Guarantee.
- Authority should obtain a bank guarantee or a sum of money as security for the money to be collected as Embarkation Levy.

- (d) Regulations 07 and 08 of the Extra Ordinary Gazette of the Democratic Socialist Republic of Sri Lanka (Special) No.1550/7 dated 22 May 2008 and the Cabinet Decision No. 23/1937/628/094 dated 28 November 2023.
- Overseas Sales Surcharge (OSS) collected as directed by the Gazette should be credited to the Consolidated Fund. However, the Authority had been recognized OSS as Authority income from the inception of the Gazette notification without being credited to the Consolidated Fund.
- Further, the Cabinet also directed the Authority to credit the relevant surcharge to the Consolidated Fund by the Cabinet Decision No.23/1937628/094 dated 28 November 2023. Accordingly, the Department of Treasury Operation had instructed to the Authority to remit the retained earnings to the Consolidated Fund. However, the Authority had not remitted the retained earning even as at the date of this report.
- The First Cabinet Decision was dated 20/11/2023, and it requested CAASL to transfer all OSS revenue. However, the Hon. Minister of Civil Aviation appealed this decision with a revised Cabinet Paper and proper justifications. The 2nd Cabinet Decision of 19/02/2024, which has legal precedence, took into consideration the contents and submissions referring to Cabinet decision No 23/1937/628/094 on 20th November 2023 of the Hon. Minister's appealed Cabinet Paper reference - Note/197/February/2024/04 and the Cabinet of Ministers further decided that the CAASL can retain LKR 90m per month of its OSS earnings for its expenses. The Board is of the view from a legal standpoint that the First Cabinet Decision has been repealed by the 2nd Cabinet Decision dated 19/02/2024.
- Accordingly, the Board has decided to remit the appropriate OSS sums as per the Cabinet Decision dated 19/02/2024, which is effective from the 1st Cabinet Decision dated 20/11/2023.
- CAASL has taken steps to comply with the Hon. Finance Minister's observation No (a)(2) and already submitted a request through the Secretary of the Ministry of Civil Aviation to the Secretary, Ministry of Finance, Economic Stabilization and National Policies for an amendment to the relevant regulation.
- Further, you are kindly informed that the remitting of the total OSS Levy does not arise as the Department of Treasury Operations, by their letter reference
- Action should be taken to fulfill the requirements of the Cabinet Decisions and the Treasury instructions.

TO/REV/01/14/14-11 dated 22nd April 2024, has instructed the CAASL to send OSS revenue after the retention of LKR 90 M on a monthly basis based on the cabinet decision dated 19/02/2024.

In light of the above, I kindly request your permission to amend the financial statements with appropriate provisions for 2023 as per the answer in item No. 01 to enable the CAASL to resubmit them to present an accurate financial position to the stakeholders.

Reply not received.

Authority should comply to the Circular instructions.

(e) Section 6.5.1 of the public enterprises circular No. PED/12 and dated 02 June 2003 as amended by section 6.6 of the public enterprises circular 01/2021 and dated 16 November 2021 issued guidelines on Corporate Governance for State Owned Enterprises

Even though the financial statements for the year under review should be furnished to Auditor General within 60 days after the close of the financial year. However, the financial statements had been furnished to the audit on 24 June 2024, with a delay of 116 days.

(f) Cabinet Decision CP/23/2271/604/22 1 and dated 05 December 2023

Although the Authority had mentioned in the cabinet memorandum that the authority has earned a net profit for the year 2022, the Authority had calculated the above net profit, by taking the Overseas Sales Surcharge (OSS), which should be collected and credited to the Consolidated Fund, as Authority income. Accordingly, the Authority could not be able to pay a bonus of Rs.9,060,561 since the base year 2022, had earned a loss of Rs.633,190,535.

The Profit for the years 2020,2021 and 2022 has not changed with this decision. The year 2023 profit of Rs. 4,600,480,452/- will be reduced only by Rs.360,288,651/-which was the applicable.

The Authority should ensure the accuracy and reliability of information reported to the Cabinet.

- (g) Public Enterprises Circular No. PED 04/2023 dated 11 December 2023
- Even though, the above bonus may be paid for institutions not paying any incentive based on attendance, performance, or any other form of incentive as per the Circular, the Authority had paid a sum of Rs.63,165,455 as allowances in addition to the above bonus.
- The PED circular No.PED/04/2023 does not mention that bonuses cannot be paid when incentives are paid based on performance, attendance, or any other forms of incentive, only the bonus amount changes if such allowances are paid or not CAASL paid the bonus with special cabinet approval, not the amounts mentioned in the circular.
- Authority should comply to the Circular instructions.
- (h) Public Enterprise Circular No; 01/2021 and dated 17 November 2021
- (i) Section 2.3
- Although the procedure manuals of the Authority should be reviewed and updated at least once in every 5 years, 44 manuals of the Authority had not been updated as at the date of this report.
- The 1st review of the Manual of Staff and Administrative Rules (SLCAP 5000) has been completed and the 2nd review is being processed. Other manuals are amended according to the requirements of International Civil Aviation Organization (ICAO).
- Authority should comply to the Circular instructions.
- (ii) Section 3.2
- Contrary to the circular provision, special allowance, managerial allowance, and interim allowance aggregating to Rs. 73,103,022 had been paid to the officers of the Authority without obtaining the approval of the Department of Management Services.
- Managerial allowance**
This Authority cannot revert the decision since this allowance has been paid since 2018 and the following reasons.
- If the payment of the relevant allowance was discontinued, all the management category officials would have to face a problem in paying the loan installments;
 - Discontinuance of payment will severely affect the organizational status and standard of living of the officers in the manager category.
 - helpful in continuing the surveillance activities of the aviation industry carried out by senior civil aviation inspectors as they have their transport arrangements;
- Authority should obtain approval from the Department of Management Services for the allowances.

Interim Allowance

The 196th Board meeting held on 19.01.2024 has decided to deduct Rs.10,000/-from the interim allowance of each employee and to increase the cost of living allowance which was increased by the OMS Circular no. 01/2024.

Special allowance

Special allowance of Rs.5000/-is paid according to the provisions mentioned in the Public Enterprises Circular no.01/2022 dated 18.01.2022 and the decision taken by the 177th Board meeting held on 28.01.2022.

Technical allowance

Special technical allowance is paid as per the provisions mentioned in letter no. DMS/1748 dated 09.04.2015 issued by the Ministry of Finance on the subject "Urgent need for strengthening of the Safety Oversight capabilities of the Civil Aviation Authority for the effective discharge of the international obligations cast on the State under the Convention on International Civil Aviation".

- (i) Direction 2.8 of Public Enterprises Circular No; 04/2022 and dated 08 August 2022
- Although Authority should not incur any expenditure related to the ceremonial activities, the Authority had spent a sum Rs.1,152,344 for the ceremonial activities during the year under review.
- The CAASL has taken steps to minimize the cost of ceremonial activities during the year 2023. There is a considerable drop compared to that of the years 2022 and 2021. It was an 84% decline compared to that of the year 2022. However, CAASL had to spend on the main key celebrations like the January 1st event, Sinhala and Tamil New Year event etc. mainly as a motivational factor for staff members of the CAASL.
- Authority should comply to the Circular instructions.
- (j) Financial Regulation 101, 103 & 104
- Part of the Weerawila circuit bungalow had been damaged by a fire on 18 May 2022, and the service provider of the management and maintenance
- The 83rd Audit and Management Committee of the CAASL recommended executing the bond of Dumindu caters amounting to Rs, 252,000/- and repair
- Authority should act as per the F.R .101-104

of the circuit bungalow had not acted as instructed by the Authority, and also the Authority had not taken action as per the financial regulations.

immediately.

The procurement process is underway to start the repair work.

- (k) Secretary's to the Ministry of Finance letter No;DMS/1748 and dated 09 April 2015
- Technical allowance should be paid only for the officers who have valid licenses or certificates, However, the Authority had paid a technical allowance of Rs.32,033,682 to 27 officers without confirming the validity of licenses or certificates.
- Special technical allowance is paid as per the provisions mentioned in letter no. DMS/1748 dated 09.04.2015 issued by the Ministry of Finance on the subject "Urgent need for strengthening of the Safety Oversight capabilities of the Civil Aviation Authority for the effective discharge of the international obligations cast on the State under the Convention on International Civil Aviation" and on the recommendation of the Assessment Panel for payment of special technical allowance and on the approval of the Staff Committee.
- validity of licenses or certificates should be confirmed.
- (l) Section 5.2.6 and 5.2.8 of the Manual of Staff and Administrative Rules
- Although each post of a designation in the Authority should obtain approval from the General Treasury and a temporary post may be created by the General Treasury at the request of the Authority, the authority had appointed 13 designated officers during the year under review and paid allowances of Rs.44,990,350 without obtaining the approval of the General Treasury.
- Approval of the General Treasury is not required for work assignments. According to Section 7 (v) of Part 11 of the CAA Act, the Authority has the power to engage qualified personnel as required on contract and provide for their remuneration consistent with industry standards. Further para 5.2.10 of Manual of Staff and Administrative Rules (SLCAP 5000) - Work Assignments - in situations of exigency of service, CAASL has the power to recruit persons for special assignments outside the approved cadre. At the 136th Board meeting held on 27th July 2017, a decision was taken to appoint Designated Inspectors from the Industry on an assignment basis to carry out duties that require special technical expertise.
- Authority should obtain approval from the Department of Management Services for the appointments.

- (m) Section 14.5.1 and 14.8.2.(IV) of the Manual of Staff and Administrative Rules
- Even though the interest rate on property loans and vehicle loans should be 7 percent, the Authority had been charged only 4.2 percent at the inception of the Manual. As a result, in sample audit revealed that loan interest income amounting to Rs.2,108,585 and Rs.1,792,073 had been lost to the Authority in year 2022 and 2023, respectively.
- The Board of Directors approved increasing the interest rate to 7% for vehicle and property loans at its 193rd meeting held on 11 October 2023. The decision is implemented.
- The Cabinet approved Manual may be amended by the Authority when deemed necessary and such amendments needs approval of the Ministry of Finance and Planning prior to implementation as per the clause 1.10 of the Manual.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.4,348,278,597 and the corresponding profit in the preceding year amounted to Rs.2,743,243,673. Therefore, an improvement amounting to Rs.1,605,034,924 of the financial result was observed. The main reasons for the improvement are increase in operating income by Rs.582.342,104 that is 16 percent and increase in other operating income by Rs. 679,995,027 that is 117 percent as compared with the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

Description	2023	2022	Variance	Percentage of Variance
	Rs.	Rs.	Rs.	%
Operating Income	4,267,567,018	3,685,224,914	582,342,104	16
Over Sales Surcharge	3,771,642,993	3,376,434,208	395,208,785	12
Service Charge of Embarkation Levy	364,495,616	227,543,076	136,952,540	60
Income from Regulatory Services	131,428,409	81,247,630	50,180,779	62
Non-operating Income	1,263,072,786	583,077,759	679,995,027	117
Staff Expenses	432,938,638	457,695,055	(24,756,417)	(5)
Administration & Other Expenses	365,420,451	260,886,367	104,534,084	40
Training Expense	9,659,098	1,474,290	8,184,808	555

The following observations are made.

- (a) As compared with the preceding year, the total income for the year under review has increased by Rs. 1,262,337,131 equivalent to 30 percent. This is mainly due to increase in interest from investment in treasury bills income and overseas sales surcharge income amounting to Rs.576,580,663 and Rs.395,208,785 respectively.
- (b) Administration and other expenses and training expenses were increased by Rs.104,534,084 that is 40 percent and Rs.8,184,808 that is 555 percent respectively compared with the preceding year.

2.3 Ratio Analysis

Type of Ratio -----	2023 -----	2022 -----
Current Assets Ratio	1:2.25	1:2.34
Net Profit Ratio	79%	64%
Return on Capital Employed	63%	42%

The following observations are made.

- (a) The current ratio of the year 2022 was 1:2.34 and it has decreased to 1:2.05 by the end of the year under review. This is mainly due to increase in payable to Treasury – OSS included in trade payable by Rs.360,288,650.
- (i) Net profit ratio has increased due to increase in income of the Authority.
- (ii) Return on capital employed has increased 63 per cent compared to the preceding year.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
As part of efforts to enhance domestic air transportation, plans were made in the 2016 Budget proposals to establish three new domestic airports at Digana, Badulla, and Puttalam through Public-Private Partnership (PPP) arrangements. The Authority incurred Rs. 2,013,605 as of December 31, 2022, for survey plans and the Environmental Impact	Payments have been settled about Badulla airport for feasibility study, CEA admin charges, a paper advertisement for requesting EOI to EIA, and survey charges. Survey and CEA admin charges were made for Puttalam airport development, but the project stopped as per the Cabinet decision. In terms of developing an airport in Digana, only the committee for conducting a feasibility study was initiated.	Progress of the development should be reviewed.

Assessment (EIA) for Badulla Airport. However, construction of these three airports is currently on hold.

3.2 Management Inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) As per Section 1.4 of the Manual of Staff and Administrative Rules of the Authority, the rules of Corporate Governance of the Authority consist of three main parts, such as staff and administrative rules, corporate rules, and financial rules. Although the corporate rules, financial rules should be issued separately as per the manual, financial rules had not been issued up to the date of this report.	Finance and Revenue Management of the CAASL developed this Manual in 2016. This document was submitted to the Audit and Management Committee, and the committee has recommended the Manual and has instructed it to be submitted to the Board for Approval at its 61st Meeting in 2018. However, the matter was differed due to various situations in the country and some provisions in the Manual are contrary to the existing legal enactments, and Director/FRM submitted the manual to the Board of Directors at the 195th Board Meeting. The board decided to review the Financial Procedure Manual and submit their amendments thereon. This manual will be completed by the end of the year 2024.	Authority should act as per Section 1.4 of the Manual of Staff and Administrative Rules of the Authority.
(b) The aeronautical facilities and land specified in the Third Schedule of the Civil Aviation Authority of Sri Lanka Act No. 34 of 2002 have been utilized by Airport & Aviation Services (Sri Lanka) (Private) Limited without a formal lease agreement or rental fee.	Based on mutual understanding, the Airport and Aviation (SL) Ltd currently utilizes these properties. Further action will be taken on the advice of the Hon. Attorney General regarding a long-term tax system and levy of fees based on the legal situation. CAASL has prepared a draft lease agreement for Batticaloa Airport to implement and sent it to the AASL for review. After finalizing the Batticaloa Airport lease agreement, the procedure will be followed for other Airports and Aeronautical facilities.	Authority should enter into the lease agreement with the Airport & Aviation Services (Sri Lanka) (Private) Limited and charge rental fee on aeronautical facilities and land specified in the Third Schedule.
(c) According to the Section 124 of the Civil Aviation Act No.14 of 2010, Business of air transportation means the making available (as the operator of an aircraft or as a principal or agent) of any accommodation for the carriage of persons, cargo or mail, on	Aim of Regulating Ticketing Agencies Is Not to Generate Income but to Ensure Public Safety. The primary objective of licensing air ticket agencies is to ensure safe air transportation for passengers by guaranteeing the proper issuance of air	Authority should follow the Civil Aviation Act No.14 of 2010.

flight by aircraft (whether registered in Sri Lanka or not) in any part of the world, including flights to and from the territory of Sri Lanka. But the Authority had not identified the service providers for carriage of cargo and mail by the aircrafts up to the date of this report and it was further observed that action had not been taken to commence the process of issuing licenses to above two services. Therefore, the Authority had lost its revenue generating from this two services.

tickets. The Civil Aviation Authority does not aim to generate substantial financial returns from this process.

- (d) Although conducting business with a lapsed license is a punishable and Director General of Civil Aviation will take legal actions as per the provisions laid down in the section 97 of the Civil Aviation Act No. 14 of 2010 against the air transport providers who do not have a proper valid license, it was observed that 947 out of 1458 service providers in group A and 164 out of 183 providers in group B had not renewed the license as at 31 December 2023. The Authority had not taken actions to confirm that service providers are conducting the business without proper valid license. Further actions had not been taken against the above service providers who did not renewal or cancel their license. This was confirmed by the charging of fines for the business activities carried out without a license by the service providers in the past years and it was further confirmed that the authority had to service providers to carry on the business activities without a license.

Many airline ticketing agencies exit the industry shortly after entering due to various reasons, such as inadequate income, competition, difficulty retaining staff, and business issues. This explains why only 500-600 of the nearly 2,300 registered establishments are operational. Non-renewed licenses do not represent lost income for the Authority because those institutions are typically no longer functioning, making it impractical to collect fees from them. Hence, a closure of business by an entity due to reasons beyond control of this office may not be considered as a loss of income furthermore such income is not projected by the financial and revenue management of CAASL.

Authority should follow the Civil Aviation Act No.14 of 2010.

For businesses that fail to renew their licenses, the following actions are taken in May 2023 as an special advice of the DGCA.

- (i) Expired license holders were given a one-month grace period to renew. Agencies failing to do so are registered as defunct. Awareness notices were sent to a 922 number of institutions, but 556 were returned due to non-delivery. Out of 922 agents 45 agents renewed their license and 877 number of agents had no response or non-delivery of notices or not renewed their license. Hence 877 number of agents removed from the list. These were categorized as non-performing.

(ii) A list is obtained from the GDS providers every six months, and agencies with non-updated licenses are advised to disconnect their systems.

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| <p>(e) Authority should reviewed the license holders annually whether license holder have valid license and whether they have renewed on due date. According to the above observations the Authority had not reviewed the license issuing and maintaining process during the past years. Therefore, the Authority had not collected renewal fee and lost Rs.78,366,175.</p> | <p>Expired license holders were given a one-month grace period to renew. Agencies failing to do so are registered as defunct. Awareness notices were sent to a 922 number of institutions, but 556 were returned due to non-delivery. Out of 922 agents 45 agents renewed their license and 877 number of agents had no response or non-delivery of notices or not renewed their license. Hence 877 number of agents removed</p> | <p>Authority should follow the Civil Aviation Act No.14 of 2010.</p> |
| <p>(f) Although the license holder should have enough office space to continue the business as per the Guidelines issued by the Authority for the Air Transport Service License, 505 licenses issued during the year 2023 the Authority had not confirmed whether license holders had fulfilled this condition.</p> | <p>Due to the widespread location of air ticket agencies across the island, onsite inspections are impractical. The Civil Aviation Authority lacks the manpower and resources to conduct such inspections. Checking licensees in this manner is also challenging. However, the authority will attempt to address unlicensed establishments as much as possible.</p> | <p>Authority should follow the Civil Aviation Act No.14 of 2010.</p> |

3.3 Operational Inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
<p>(a) The Authority provided advances totaling Rs. 215,710,963 to AASL for the construction of a temporary passenger terminal, fire building, and peripheral road at Jaffna airport.. Although the construction of Jaffna International Airport was completed on August 11, 2020, the settlement of these advances remains unresolved as of August 31, 2023.</p>	<p>CAASL releases funds allocated for Jaffna International Airport development through the evaluation and approval of the Project Procurement Evaluation Committee (PPEC) and Project Procurement Approval Committee (PPAC). The committees were last appointed on 13th July 2020 by the Ministry (Ministry of Tourism and Aviation). Since the members are not available in the committees, a request has been forwarded to the Line Ministry to appoint committees to complete the advance settlements. Continuous discussions are going on in this regard.</p>	<p>Advance should be settled within the specified time period or relevant programme is over.</p>
<p>(b) Four airlines applied the exchange rates prevailing on the flight date to</p>	<p>CAASL has taken continuous steps to recover the delayed interest by the provision</p>	<p>The Authority should check and verify the accuracy of</p>

calculate the Embarkation Levy, amounting to Rs. 1,504,761,392. This is contrary to the rate specified in Direction EL/01/2023 issued by the Director General of Civil Aviation.

given in Subsection (3) of section 4 of the Finance Act and Embarkation Levy regulations. The matter was informed to the Line Ministry and Treasury as well. The final reminders to the respective airlines to settle the outstanding Embarkation Levy were sent and a letter has been sent to the Hon. Attorney General regarding this issue.

the Embarkation Levy remitted by each airline through a formal mechanism.

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
<p>(a) The Civil Aviation Authority of Sri Lanka (Authority) had spent Rs. 24,217,285 for the renovation of Weerawila circuit bungalow, exceeding the total budget allocation of Rs. 7.5 million. For this construction, only one bidder had quoted, and Authority had selected the contractor in contrary to the Government Procurement Guidelines. Further, the formal contract agreement had not been signed by both parties. After awarding the contract on 18 May 2022, the bidder had commenced the work on 13 March 2023, at the same bid price, even though material cost has tripled after 10 months later. Without requesting additional work amounting to Rs. 2,193,750 had been completed by the contractor, and the TEC and PC had not approved this BOQ for the additional work. A Certificate of Completion had not been issued in terms of the Government Procurement Guidelines 8.12.2. Further, the contract registration certificate was not obtained as per Section 11(1) of the Public Contracts Act No. 03 of 1987, and the performance guarantee given by the contractor had expired before completion of the work.</p>	<p>According to the Government Procurement Guidelines 7.12.2, when quotations are called under National Competitive Bidding (NCB), even if only one bid is received, the procurement process can still proceed under certain conditions. This guideline ensures that procurement is both fair and efficient, even in scenarios where competition appears limited. The DPC approved rates based on those existing prior to the economic crisis. In light of the current market conditions in the country and in strict adherence to the Procurement Guidelines, the DPC made a crucial decision to re-award the contract to the same bidder. This decision was reached after a comprehensive assessment of the situation, considering various factors. The bidder is registered with the Construction Industry Development Authority (CIDA) at the C7 level. CIDA is the authoritative body that governs and regulates the construction industry in Sri Lanka, ensuring that all registered entities meet stringent standards of quality, reliability, and professionalism. The extension had been granted as a variation to the original project scope to complete the construction of wall tile work in 12 bathrooms. This work is mutually exclusive from the originally assigned tasks, and therefore, the deadline applicable to the original project does not apply to the variation work. Eight years after the building's construction,</p>	<p>It is required to comply with requirements of procurement manual and guideline.</p>

Without requirements of supply and fixing of sanitary ware, a sum of Rs. 1,792,000 had been paid to the replacement of sanitary ware.

a comprehensive inspection revealed significant deterioration in the sanitary ware, including sinks, toilets, and other bathroom accessories. The issues identified were discoloration, burning, and cracking. Discoloration indicated material degradation, burning suggested exposure to extreme temperatures, and cracks compromised both functionality and aesthetics. These problems diminished the sanitary ware's usability and appearance, making replacement essential. Installing new, high-quality fixtures was deemed necessary to restore hygiene standards, functionality, and visual appeal, ensuring the bungalow remained in good condition for its occupants and the image of CAASL.

- (b) Despite renewing the management and maintenance contract for the Weerawila circuit bungalow with the same company since 2016, the Authority paid Rs. 5,960,000 without a valid agreement. Additionally, Rs. 1,155,000 was paid to the service provider during the renovation period.

Weerawila Circuit Bungalow is managed primarily as an official accommodation for CAASL staff on duty, and to provide holiday bungalow facilities for CAASL staff at a concessionary rate. Further, during the period under review, a smaller number of reservations were made as the renovation work commenced in May 2024. Hence, during this period no reservations were made, except providing staff accommodation for official duties. Moreover, actions have been taken to promote the bungalow to raise the number of reservations and the reservation rates have also been increased since 2024.

Action should be taken to get the value for money by introducing the proper mechanism.