

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 2024 comprising the statement of financial position as at 31 December 2024 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 paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2024, 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 opinion.

1.3 Emphasis of Matters

I draw attention to Note No. 30 and as per the circular dated 12/04/2022 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 on-going constructions of BIADP Phase II Stage 2 Project, as the contractor refused to continue the project since JICA stopped the loan disbursements with the issuance of circular.

Despite the circular issued by the Ministry of Finance, Company communicated to the Ministry of Finance that AASL has the financial capability to make loan repayments and continue the project as the company has adequate funds. Since that endorsement could not be issued due to IMF debt restructuring programme, the contractor Taisei Corporation terminated the contract with AASL, with effect from 09 December 2022.

After contract termination, AASL was authorized to fund critical protective works using its own resources until JICA funding resumes. Two contracts worth Rs. 3,677 million were awarded, with one completed and the other 73% done by the end of 2024. Termination payments to Taisei Corporation paid and unpaid amounted to JPY 444.5 million and Rs. 1,486.8 million, excluding additional running costs and financing charges to be accrued to the final claim. AASL received local materials worth Rs. 3,920 million and approved overseas stock plans worth Rs. 720 million. While the contractor may escalate disputes to a Dispute Board, no provision has been made in the 2024 financial statements for this potential liability.

After settling termination payments, the remaining JICA loan is insufficient to complete Package A, resulting to ongoing funding negotiations between JICA, the Sri Lankan Government, and AASL. An Aide-Memoire was signed on 11 November 2024 to support financing for the completion phase (Package “AI”), and Amendment No. 3 to the consultancy agreement was signed on 1 November 2024. Tendering began on 24 September 2024, extended to 25 March 2025, with bid evaluations currently in progress.

My audit opinion remains unmodified in respect of this matter.

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.

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 Standards

Audit Issue	Management Comment	Recommendation
(a) According to Paragraph 36 of Sri Lanka Accounting Standards (LKAS) 16 – Property, Plant and Equipment (PPE), when an item of PPE is revalued, the entire class of	15 Buildings - Revaluation has already been done and revaluation gain or loss will be recorded in FY 2025. All the buildings at Piduruthalagala have been revalued,	It is required to comply with the requirement of the LKAS 16.

assets to which it belongs shall be revalued. However, the company had excluded 15 buildings valued at Rs. 212.7 million, 44 vehicles valued at Rs. 84.8 million, hangars valued at Rs.18.5 million, and plant and machinery valued at Rs. 6,900 million when revaluing the PPE.

and we are currently in the process of recording the updated values in the accounting records. Further, Department of Valuation did not revalue the Toilets at BIA. Further, we carried out the revaluation only for asset class Building and Vehicles. For all other asset catogaries Commitee has been appointed to review the useful lifetime of the asset and adjustments have been made accordingly.

- (b) According to Paragraph 16(b) of LKAS 16, only costs directly attributable to preparing an asset for its intended use may be capitalized. Further, Paragraph 20 of LKAS 23 requires the suspension of capitalization of borrowing costs during extended periods of inactive development. However, contrary to that the salaries of the PMU staff and loan interest amounting to Rs. 7.5 million and Rs. 43.8 million respectively, incurred during the suspended period had been capitalized under the capital work-in-progress.

PMU salaries during Project inactive period was transferred to P&L with approval of the Board. Project was reactivated in August 2024 as confirmed by PMU. PMU salaries after August 2024 have been recorded in WIP.

It is required to comply with the requirement of the LKAS 16 and LKAS 23.

1.6.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Without the ownership being transferred, a sum of Rs. 671.1 million was reported as lands under Property, Plant, and Equipment in the company's Financial statements for the year under review.	By virtue of the Gazette Notification No. 2050/38 dated 21st December 2017 the lands appertaining to and the Aerodromes mentioned in Schedule II thereof were vested in the Civil Aviation Authority of Sri Lanka. Nevertheless, appropriate actions will be taken liaising with Secretary to the Line	It is recommended to Ensure that all assets recorded under PPE are legally owned by the Company.

Ministry and Civil Aviation Authority once a proper solution has been received for the legal ownership for the lands.

- | | | | |
|-----|---|---|--|
| (b) | According to the 2023 Board of Survey report, the cost of the assets (carrying value Rs. 529.9 million) not available in the company was Rs. 1,952 million. However, no required adjustments had been made in the books of accounts of the company. As a result, the PPE shown in the financial statements had been overstated by similar amount. | Physical Fixed Asset Verification process as of 31.12.2024 is in progress and to be completed before 30.6.2025. In case of Rs.1,998 million, it is revealed that there were classification issues across divisions and therefore it is expected to cover all these assets comprehensively during ongoing physical verification. Once physical verification is over all such non-available assets will be forwarded to the AMC for necessary instructions. | The company should investigate and reconcile the discrepancies identified in the Board of Survey report, and make appropriate accounting adjustments to the financial records. |
| (c) | The goods received during the year under review amounting to Rs. 1,403.9 million, had been erroneously shown as goods in transit, without being transferred to the relevant accounts. | Certain items have been received and GRNs issued. These will be transferred to WIP as the commissioning of assets are still in progress. This matter will be referred to AMC in order to make a policy directive considering the practical scenarios being faced by the respective divisions. | The company should reclassify the 'goods in transit' to the appropriate inventory account to reflect their actual status as received stock. |
| (d) | Cost of the fully equipped ambulance and a garbage compactor valued at Rs. 52.1 million which were donated to AASL by the government of Japan had not been accounted as PPE under the financial statements of the Company year under review. | Only one Ambulance received. Other Ambulance has been given to Ports Authority. Action has been taken to record the two vehicles given to Airport Management and Mechanical Division in year 2025.

Airport Management division (Medical Centre) has received the donation of fully equipped Ambulance vehicle (Manufacture Toyota) from IOM and donated by the Government of Japan on 29th Nov 2024 for CIF SL - 35115 US\$ + Tax and VAT. | The company should recognize the donated assets as Property, Plant, and Equipment (PPE). |
| (e) | As per the financial statements, the fixed deposit investment was Rs. 100,970 million. However, as per bank confirmation it was Rs.100,677.3 million. Hence, there was a difference of Rs. 292.7 million between two balances and no action had been taken to reconcile the two balances. | Follow up actions have already been taken with BOC. Meeting held with BOC on 7.2.2025 and Last reminder letter sent on 20.5.2025 | The company should investigate and reconcile and make the necessary accounting adjustments before finalizing the financial statements. |
| (f) | Fifty assets worth Rs. 1 million that were acquired between 2017 and 2024 | This list has many inventory items which anyway needs to be written off. We will fix | A comprehensive investigation be |

were written off from the financial statements. Out of these, 40 assets worth Rs. 943,622 were acquired in 2024, while 7 assets worth Rs. 33,400 were acquired in 2023.	the threshold at Rs.20,000 for categorizing assets and inventory and the nature of the item will also be considered. The items above Rs.20,000 will be reviewed and taken back to asset register. Other items will be considered as inventory.	conducted into the premature write-off of assets acquired between the 2023–2024 assets, and that proper documentation, justification, and accountability be established.
(g) A totaling of Rs. 2.2 million, which exhibit characteristics of recurrent expenses according to company practices, were incorrectly recognized as part of work-in-progress instead of being charged to profit and loss account.	User unable to identify the exact nature of some expenditure at the initial stage.	The company should reclassify the work-in-progress to the profit and loss account, in accordance with applicable accounting standards.
(h) An allowance of Rs. 82.4 million was allocated for slow-moving inventory in the financial statements for the year ended 2021. And, this same allowance amount had been carried forward unchanged through the financial year ended 2024. The continued use of the 2021 allowance without any reassessment based on the current inventory status and age analysis raises concerns about its appropriateness as of December 31, 2024.	Currently System not facilitate to obtain Inventory Age Analysis report. However, this issue already been reported to ERP Support team under Annual Maintenance Contract and case is under their review.	Action should be taken to reassess the allowance and adjust the financial statements as necessary to ensure they present a true and fair view.
(i) 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 statement as at 31 December 2024. However, it was not confirmed the physical existence of this asset in audit.	As the HF Receiving Station had been shifted from Thalangama to Kandapola with a Government order, only part of the Lightning & Surge Protection system had been moved to Kandapola and the remaining part including underground copper and rods had not been relocated due to practical challenges. With the direction of AMC and the Board Decision ref 068/2025 taken on 26th March 2025, below actions were taken. (i) Written off-off Rs.3,878,575.27 which is 76% of the total value in March 2025. (ii) Value of Rs.1,222.677.27 as revaluation adjustment in ERP system in March 2025.	It should be ensured the accuracy of the asset records.

1.6.3 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
A difference of Rs. 4,697.1 million was identified between the Embarkation Levy payables recorded by the Civil Aviation Authority and the receivables reported by the AASL. However, no action had been taken to reconcile the two balances.	Revenue is recognized on an accrual basis only when CAASL notifies and remits the collection to AASL.	The company should investigate and reconcile and make the necessary accounting adjustments before finalizing the financial statements.

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. 234.5 million had remained outstanding for over 1 to over 5 years without been recovered.	Out of the outstanding value below debtors consist of 95% of the total debtors aged more than 365 days. <table> <tr> <th>Institute</th><th>Value</th><th>Current Position</th></tr> <tr> <td></td><td>Rs. m</td><td></td></tr> <tr> <td>Aero Lanka</td><td>221.8</td><td>Approval was denied by AMC, and now the matter is with the Legal Division with no conclusion.</td></tr> <tr> <td>Sri Lanka Air Force</td><td>2.6</td><td>written to the Ministry to intervene in recovering dues from SLAF</td></tr> </table>	Institute	Value	Current Position		Rs. m		Aero Lanka	221.8	Approval was denied by AMC, and now the matter is with the Legal Division with no conclusion.	Sri Lanka Air Force	2.6	written to the Ministry to intervene in recovering dues from SLAF	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.
Institute	Value	Current Position												
	Rs. m													
Aero Lanka	221.8	Approval was denied by AMC, and now the matter is with the Legal Division with no conclusion.												
Sri Lanka Air Force	2.6	written to the Ministry to intervene in recovering dues from SLAF												

Srilankan Airline	2.6	We have sent regular reminders with statements of accounts and letters, requesting settlements.
----------------------	-----	--

Total	227.1
--------------	--------------

- (b) The landing and parking trade debtors (Domestic), amounting to Rs. 65.1 million had remained outstanding for over 1 to 5 years without been recovered.
- The Land and Parking debtor domestic balance consists of the following debtors, which consist of 96.5% of debtors aged more than 365 days.
- 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.

Institute	Value	Current Position
	Rs.m	
Lion Air	47.3	under litigation
Sri Lanka Air Force	8.1	written to the Ministry to intervene in recovering dues from SLAF
Srilankan Airline	7.4	We have sent regular reminders with statements of accounts and letters, requesting settlements.

Total	62.9
--------------	-------------

- (c) The rental debtors amounting to Rs. 190 million had remained outstanding for over 1 to 5 years without been recovered.
- All dues consist of default interest. Reminders have been sent to respective customers on a regular basis. All dues are secured by securities except Sri Lankan Airlines dues.
- 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.

(d) The Aerobridge debtors amounting to Rs. 1.3 million had remained outstanding for over 1 to 5 years without been recovered.	All dues consist of default interest. Reminders have been sent to respective customers on a regular basis. All dues are secured by securities except Srilankan Airlines dues.	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.
(e) The overflying Debtors, amounting to Rs.196.9 million had remained outstanding for over 01 to over 5 year without been recovered.	There are dues from the year 1985. No write-off has been made from the date of commencing Air Navigational Service by the company. AASL does not keep any securities for providing this service. AASL sends reminders requesting settlements and periodical reports are being sent to the Civil Aviation Authority requesting their intervention on recovery.	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

1.7.2 Payables

Audit Issue	Management Comment	Recommendation
As of 31 December 2024, Rs. 12.2 million in overpayments from overflying debtors was recorded in the financial statements without being refunded or offset. Of this amount, Rs. 10.7 million had remained unsettled for over a year, according to the age analysis.	All overpayments available as against default customers who have given the consent to setoff have been settled.	Actions should be taken to identify long outstanding credit balances. After that required adjustment should be made to clear those credit balances.

1.7.3 Advances

Audit Issue	Management Comment	Recommendation
Supplier advances obtained by all division and section heads should be settled before the end of each year. However, advances aggregating to Rs. 21.4 million had remained over 1 to 4 years without being settled.	Continuous follow-up actions are taking to clear all long outstanding supplier advances by coordinating with the relevant Heads of Divisions.	Supplier advances should be cleared without delay after getting the source and supporting documents from the relevant divisions.

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 January 2022	Contrary to the circular provisions, the Board of Directors of the company had approved fuel allowances for 277 officers (Monthly Average) exceeding their entitled limits and the overpayment amount is Rs.67 million.	This allowance is approved and paid from 2015. Already approved allowances could not be changed since total remuneration package of relevant staff are comprised with this fuel allowance.	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.	Since AASL had implemented ERP system for Supply Chain Management and Finance on 01.07.2021, we have identified issues for practicing e-GP and ERP parallel for procurements. These issues were communicated with e-GP secretariat and discussions were had with their responsible officials. Final decision was to do the procurements through e-GP after integrating the ERP and e-GP at the 3rd Version Upgrade of the e-GP which may be at the end of the year 2025 until the integration part is completed AASL is required to upload the Procurement Awards and Procurement Notices as we are doing.	Action should be taken to comply with the circular requirement.

- | | | | |
|---|--|--|--|
| <p>(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</p> | <p>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. However, CEO had not been appointed yet.</p> | <p>This requirement is being reviewed and evaluated by the Board of Directors of AASL considering the recommendations of the COPE at its meeting on 02/04/2025. Subsequently as decided by the Board, since this decision has to be made by the Chief Accounting Officer considering the instruction of the Ministry of Finance, a letter has been forwarded to the Line Ministry and awaiting response.</p> | <p>It is recommended to address this governance gap to mitigate risks related to inadequate accountability, operational inefficiencies, and regulatory non-compliance.</p> |
| | | | |
| <p>(d) Public Enterprises Circular No. 01/2021 - and dated 16th November 2021– Operational Manual for state owned Enterprises</p> | | | |
| <p>(i) Section 3.2 (i)</p> | <p>The Company is required to submit requests pertaining to cadres including cadre positions, Scheme of Recruitments (SOR), pay structure and allowances with Board approval and recommendations of the Line Ministry, for the approval of the Director General of Department of Management Services. However, the Company only obtained Board approval for the SOR and the pay structure and allowances were approved by the Ministry of Finance on 1 January 2024 without full approval for SOR.</p> | <p>However, as per the interim instructions given by the COPE, the draft SORP and the existing Cadre of AASL has already been submitted to Department of Management Services for their scrutiny. Relevant discussions have also been commenced from 19/05/2025 with Department of Management Services in this connection.</p> | <p>Approval should be obtained from the Director General, Department of Management Services.</p> |

(ii) Section 3.4	The Company should include job descriptions, academic qualifications, experience, and other relevant details when formulating schemes for recruitment and promotions. However, the current SOR in use does not include job descriptions or the mode of recruitment.	The highlighted requirements have been incorporated to the newly draft SORPs as per format of the Department of Management Services.	Action should be taken to comply with the circular requirement.
(iii) Section 5.3	A significant discrepancy exists between the stipulated 30% profit after tax distribution to the Consolidated Fund, as outlined in the PED Operational Manual, and the actual amount credited by the Airport and Aviation Company over the past three financial years (2022, 2023, and 2024). While the expected contribution totals Rs. 16,280.6 million, the company has only paid Rs.7,336 million, representing just 45% of the anticipated amount.	Dividends are declared at the Annual General Meeting based on the requests made by Treasury and accordingly these amounts had been remitted each year. As capital and operational expenses including servicing of loans are borne by AASL without depending on Treasury, AASL should have sufficient financial resources in order to meet the future expenses. Annual capital expenditure budget for 2025 is Rs.27 Bn. and Operational budget is Rs.30 Bn. totaling Rs.57 Bn., whereas Revenue budget is Rs.50 Bn.	Action should be taken to comply with the circular requirement.
(e) Section 2.1 of the Public Enterprises Circular No. PED 04/2023 dated 11 December 2023 and Section 4 of the Internal Memorandum issued by the Company	In April 2023, the Company paid a bonus advance of Rs. 178.8 million to 3,589 employees, Rs. 50,000 each, which should have been deducted from the annual bonus of Rs. 125,000 per employee at year-end, as per circulars. However, the	As per the Board approval on 19/11/2024 Cabinet Memorandum was submitted on 20/11/2024 to consider the Bonus Advance of Rs. 50,000/= paid in April 2023 as a special payment paid to AASL employees in the	Action should be taken to comply with the circular requirement.

Company paid Rs. 664.6 million as bonus for 2025 without adjusting for the advance. Further, Rs. 514.5 million was paid as leave encashment, contrary to the relevant circular.

year 2023. Cabinet was directed to Secretary to the Ministry to appoint a Committee to get an opinion on the above request. But the Committee decision was not yet received. However Rs. 2,500/= is recovered from monthly salary from the employees those who have given consent to recover the advance payment in instalment basis effective from June 2024. At the same time, total advance amount is recovered from the employees those who have retired/ resigned after April 2023. Total recovery up to March 2025 is Rs.26,510,062.50

- | | | | | |
|-----|--|---|--|---|
| (f) | Circular No. AP/238 dated September 2023 of Airport and Aviation Services (SL) Ltd | Despite AASL implementing measures to improve vehicle accident investigations, formal procedures were not followed for 50 accidents involving the company's vehicle fleet during 2023 and 2024. | There were pending documents/ cheques etc., from the stakeholders (AASL Divisions/ Insurer/ Garages etc.) and actions have already been taken to rectify and streamline the procedural deviations, as informed in the response to the relevant Audit Query to the Government Audit Department. | Action should be taken to comply with the circular requirement. |
| (g) | Circular No. AP/203 dated 12 May 2015 of Airport and Aviation Services (SL) Ltd. | The staff loan repayment period is 36 or 48 months. However, contrary to that loans given to 11 employees aggregating to Rs. 1.1 million had not been recovered even though the repayment period is lapsed. | Legal action has been initiated against seven employees in connection with disciplinary breaches or misconduct and follow-up actions are currently in progress for other employees. | Action should be taken to comply with the circular requirement. |

1.9 Cash Management

Audit Issue	Management Comment	Recommendation
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 2024. According to the management comment, the case is still under investigation and court case is processing on the fraud.	Agreed and these unrealized deposits are kept as it is in the bank reconciliation until the completion of legal proceedings.	Action should be taken against the cash fraud and required adjustment should be made after finalization of the court case.

1.10 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(a) According to section 11(2) of the Inland Revenue Act No. 24 of 2017, in calculating a person's income from a business or investment for a 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.1,223.3 million paid to General Treasury by the company for foreign loan repayment had been deducted as allowable expenditure during the year under review. As a result, it was observed that the taxable income had been understated by Rs.1,223.3 million and the income tax liability for the year of assessment 2024/2025 had been understated by Rs.367 million.	This special treatment is applicable only for the loans obtained by General Treasury on behalf of Airport Development Projects where repayments are made by AASL to Treasury and Treasury pays to borrower. This special treatment will not be applicable to the loans obtained by AASL directly from the lenders.	Formal approval from the IRD should be taken to deduct the loan repayment made to treasury when calculating the income tax.
(b) According to the capital allowance schedule for assets purchased after 31 March 2018, 5% capital allowance was claimed for airport infrastructure purchased in the year 2024/2025 and 20% claimed for those purchased during the period from 2020/2021 to 2023/2024	The classification adjustment have been applied to assets acquires during the period 2020-2021 to 2023-2024 as indicated in the audit query for the financial statement 2024.	The accuracy of tax liability calculations must be ensured to maintain compliance with tax laws and reflect a true and fair view of the company's financial position.

instead of 5%. When calculating the assessable income, the company used two bases for the claimed capital allowance and due to that capital allowance was overstated by Rs. 62.5 million for the year 2024/2025. As a result, It was observed that assessable income was understated by Rs.62.5 m and tax liability and tax expenses were understated by Rs.18.75 million (62,507,737 x 30%) for the year 2024/2025.

- | | | | |
|-----|--|--|---|
| (c) | <p>As per the Financial Statements (note 11 - Property, Plant and Equipment schedule) the addition of Plant, Machinery and Equipment during the year 2024 was Rs.380 million and as per the schedule of capital allowance said amount was Rs.363.7 million. Therefore, it was observed that Rs.16.3 m difference of addition of Property, Plant and Equipment during the year 2024 and taxable income was overstated by Rs.3.2 million (16,303,409x 20%) compared with Financial Statements.</p> | <p>Mainly, this treatment is in line with the Inland Revenue Act No. 24 of 2017 which states that capital allowances for motor vehicle are disallowed unless the vehicle is used exclusively for business purposes. As this vehicle is not classified as used exclusively for business within the meaning of the Act, it was excluded from the capital allowance claim in the tax computation.</p> | <p>Company should implement a control mechanism or checklist to cross-verify figures used in the capital allowance computation with audited financial statements prior to finalizing tax returns.</p> |
|-----|--|--|---|

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.21,107,551,033 and the corresponding profit in the preceding year amounted to Rs.28,121,654,931 Therefore, an deterioration amounting to Rs. 7,014,103,898 of the financial result was observed. The main reasons for the decrease are decrease in finance income by Rs.2,685,223,629 that is 26 percent, increase in administration and establishment expenses by Rs.5,256,073,518 that is 28 percent and increase in finance cost by Rs. 290,459,919 that is 65 percent and decrease in Exchange gain by Rs. 2,257,737,486 that is 37 percent compared with the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

Description	2024	2023	Variance	Percentage of Variance
	Rs.	Rs.	Rs.	%
<u>Revenue</u>	43,750,204,235	38,245,784,487	5,504,419,748	14.3
- Aeronautical Revenue	7,767,625,053	7,575,143,036	192,482,017	2.5
- Non Aeronautical Revenue	35,982,579,182	30,670,641,452	5,311,937,730	14
Other Income	147,125,607	130,045,148	17,080,459	12
Finance Income	7,742,971,965	10,428,195,594	(2,685,223,629)	(26)
Administration & Establishment Expenses	24,317,232,283	19,061,158,765	5,256,073,518	22
- Staff cost	10,072,258,508	7,467,364,871	2,604,893,637	26
- Repairs & Maintenance	1,573,885,418	1,880,496,451	(306,611,033)	(19)
Finance Cost	2,515,661,418	2,225,201,499	290,459,919	13
Exchange gain /(loss)	3,863,676,146	6,121,413,632	(2,257,737,486)	36.8

The following observation is made.

Although the company's revenue increased by Rs. 5,504,419,748, representing a 14% growth compared to the previous year, the profit for the year decreased by Rs. 7,014,103,898. This decline in profitability, despite higher revenue, was primarily attributed to a significant increase in staff costs amounting to Rs. 2,604,893,637.

2.3 Ratio Analysis

Type of Ratio	2024	2023	2022	2021	2020
Current Assets Ratio (number of times)	3.08	3.31	4.23	5.98	7.68
Quick Assets Ratio (number of times)	3.03	3.2	4.1	5.88	7.55
Leverage Ratio (Times)	1.46	1.39	2.44	1.66	1.38
Net Profit/ (Loss) Ratio (%)	48	73	17	-26	-31
Basic (Loss) / Earnings per Share (Rs.)	105,537	140,606	24,013	-10,417	-12,522
Return on total Assets (%)	9	15	3	-2	-2
Revenue per Passenger (Rs.)	4917	5,083	5,024	5,234	3,373

The following observations are made.

- (a) The company's liquidity position has shown a consistent decline from 2020 to 2024. Both the Current Assets Ratio and Quick Assets Ratio have decreased significantly during this period. Specifically, the Current Assets Ratio fell from 7.68 in 2020 to 3.08 in 2024, while the Quick Assets Ratio dropped from 7.55 to 3.03 over the same timeframe. This indicates that the company has fewer readily available assets to cover its short-term liabilities than in previous years.
- (b) Revenue per passenger has shown a relatively stable trend from 2021 to 2024, hovering around Rs. 4,900 to Rs. 5,200.
- (c) The Leverage Ratio increased slightly from 1.39 times in 2023 to 1.46 times in 2024.
- (d) Basic Earnings per Share (EPS) also declined, from Rs. 140,606 in 2023 to Rs. 105,537 in 2024. However, this still represents a substantial earnings per share figure.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
(a) The commitment chargers and project administration expenses amounting to Rs.133.3 million incurred for the Construction of Passenger Terminal	Project was delayed due to reasons such as Change in the design, COVID pandemic and the project termination due to JICA deactivating the	Action should be taken to get the value for money by introducing a proper action plan and minimizing the un

Building-II & Associated works during the project suspended period was uneconomical.	disbursements of JICA loans with the GOSL Interim Debt Policy which was issued by Ministry of Finance with the foreign currency crisis. Therefore commitment charges were incurred on the unutilized loan amount. Although the project was suspended and subsequently terminated in 2022, PMU staff retained in order to finalize construction & contractor bills and claims and to prepare for rebidding. Therefore payments had to be made to PMU during this project inactive period.	necessary activities.
(b) Due to the unauthorized construction of a holiday bungalow on government land at Anuradhapura, a sum Rs. 6.1 million had been write-off as uneconomic expenditure during the year under review.	Rs.6.2 million incurred on the construction of holiday bungalow at Anuradhapura had been written off in 2024 as per the direction of Ministry AMC and approval of the Board on the recommendation of the Finance Management and Revenue Generation Committee of AASL.	Action should be taken to get the value for money by introducing a proper action plan and minimizing the un necessary activities.

3.2 Identified Losses

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) The company acquired a land for a holiday bungalow in Kataragama in 2002 and 2003 was fraught with significant irregularities and a severe lack of due diligence, ultimately resulting in the loss of Rs. 21 million and the dismissal of a subsequent legal attempt to recover funds.	With the response of the Kataragama Divisional Secretary dated 07th August 2002 stating that there is no legal impediment in conveying the land to Airport and Aviation Services (Sri Lanka) (Private) Limited (AASL) for a common and welfare purpose, an agreement to sell was entered into between the parties to purchase the land with the granting of Ratnabhoomi Deed to the License holder. Currently, the said land has been leased to Airport and Aviation Services (Sri Lanka) (Private) Limited on a Government long-term lease and AASL is making use of building constructed on the land as a	The company should emphasize the critical need for strong internal controls, legal oversight, and transparency in high-value asset acquisitions.

pilgrims' rest on a welfare measure.

At the dismissal of the action filed at the Gampaha District Court, being dissatisfied with the judgment, AASL appealed against the judgment to the Civil Appeal Gampaha.

- (b) The Company had entered into agreements with 6 Associations/ Companies to provide taxi services since 1983 and the relevant agreements had been extended until February 2026 based on a decision of the Board of Directors in February 2025 finally, by extending from time to time. However, due to the breach of the agreement entered into by the Company with the relevant parties from 01.02.1995 to 08.02.1996, the court had ordered the Company to pay compensation to the relevant parties in relation to the case filed by the relevant parties and accordingly, Rs. 23 million had been paid as compensation to the relevant parties by 22 July 2023.

A total of 134 cases filed by taxi permit holders at Bandaranaike International Airport (BIA) were decided against Airport and Aviation Services (Sri Lanka) (Private) Limited (AASL). Following two appeals and based on the advice of the Hon. Attorney General, who stated that there was no legal basis to prefer an appeal against the judgment of the Civil Appellate High Court of Negombo, the Board of Directors of AASL approved the payment of compensation as awarded.

However, it is pertinent to note that AASL paid compensation for only 117 cases and successfully defended 17 cases, in which adequate information had not been provided to the Court.

The relevant agreement on the BIA taxi service has been extended, with the approval of the Board of Directors, until 28.02.2026.

The Company should conduct a comprehensive review of all long-standing service agreements, to ensure compliance with contractual terms and legal requirements.

3.3 Management Inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) According to the Customer Complaint Management System of the Company, the Company received 977 customer complaints in the year 2024 including lost baggage, mishandled baggage, and damaged to baggage. It was observed that the follow-ups regarding the resolution of those complaints and preventive measures were not being done systematically.	In accordance with the laid down Procedure Manual of the AM Division, it only receives and distributes complaints to the Internal Divisions or external agencies which they relate to. AMD does not follow up any complaints except those relate to itself. Complaints follow up was entrusted to the Head of ISO by a Board Decision dated September, 2023 according to which all the complaints received are forwarded to the Head of ISO then and there and its outcome is not notified to the AMD and as such, the information provided for the NAO did not include same.	The Company should enhance its Customer Complaint Management System by implementing a structured process for timely follow-up and resolution of customer complaints.
(b) It was observed during the sample audit that the company had not verified the educational and professional qualifications from the relevant authorities when appointing officers	As a standard practice, educational and professional qualifications mentioned in the SORP of all new appointees are authenticated with relevant authorities and appropriate actions also being taken based on the authentication reports.	The Company should establish and enforce a formal procedure for verifying all educational and professional qualifications with the respective institutions or certifying bodies prior to the appointment of any officer.

- | | | |
|--|---|---|
| <p>(c) According to the Cabinet decision No.අමප/23/0154/604/014 dated 07 February 2023, company required to sign a MOU with the Government of Sri Lanka (GOSL) and adjust the books of accounts about the foreign loan amounting to Rs.30,423 million equivalent to USS 102.4 million shown in the financial statements. And it is also required to remit debt servicing instalments 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.</p> | <p>Repetitive reminders have been sent to Ministry of Finance requesting the draft MOU and still awaiting response. Discussion held in February 2025 with Treasury officials and they agreed to send the MOU which is still pending. This is beyond AASL control.</p> | <p>The Company should take immediate steps to comply with the Cabinet decision.</p> |
| <p>(d) The company had not taken action to disclose the financial results of the other airports and BIADP Phase II Stage 2 project separately.</p> | <p>Management ensures compliance with applicable accounting standards by recognizing revenue and expenses for operations, including lounges, under the accrual basis of accounting. While segment-level financial information is not separately disclosed for the reasons outlined, we believe the aggregate disclosures provide users with relevant and meaningful insights into the entity's financial performance.</p> | <p>The Company should take immediate steps to disclose the financial results of the other Airports and the BIADP Phase II Stage 2 project separately in the financial statements to improve transparency.</p> |

3.4 Operational Inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) Performance of Mattala Rajapaksha International Airport (MRIA) The operating cost of the MRJA in the year under review had recorded Rs.3,600.8 million	In case of MRJA, with the proposed cancellation of the cabinet decision of Handing over of the Operations,	Action should be taken to operate and upgrade Mattala Rajapaksha

and it was 14 times over the operating Income of Rs. 242 million. Further, the operating loss of the airport was Rs.3,358.6 million and net profit after tax for the year under review was Rs.879.7 million mainly due to effect of the foreign exchange gain. The cumulative net losses after tax from year 2018 to 2024 was Rs.39,369 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 321,577 and total flight movements of last six years were 3,596. 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.2,053 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.

(b) Performance of Colombo International Airport, (CIAR) – Rathmalana

The cumulative loss of the CIAR - Rathmalana from year 2018 to 2024 was Rs.2,720.8 million including the loss of the year under review amounting to Rs.112 million. After CIAR was upgraded to an international airport, total International aircraft movements during the period 2020 to 2024 were 203 only and the passenger movements during period 2020 to 2024 were 164 only.

AASL propose to call for fresh investments on an EOIRFP for direct/indirect Aviation related business specified under 09 areas and it is in progress.

International Airport in more efficient and effective manner and in a profitable way as planned.

In case of CIAR, for the year 2024 full year CIAR recorded a annual loss of Rs.113 million after 40% remitted to the Treasury. If no Treasury Remittance was made, CIAR is having pure Net Profits of over Rs.1 Billion. for the year 2024.

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

(c) Performance of Jaffna International Airport (JIA)

(i) The JIA had inaugurated on 17 October 2019. However, from the inception of the Airport, only 1,480 aircrafts movements with 36,993 Nos. of passenger movements had taken place. The recorded cumulative loss during last past 06 years was Rs. 141.1 million

At present JIA is earning Profits and for the 4 months ended 30.04.2025 JIA earned Rs. 22 Mn Net Profits. Also for the year ended 31.12.2024 Rs.286 Mn total revenue and Profits of Rs.76 Mn recorded.

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.

including the net profit of Rs.76.2 million of year 2024. The revenue and the operating expenditure during the year under review were Rs.286 million and Rs.210 million respectively.

- | | | |
|--|--|---|
| <p>(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.</p> | <p>Phase II development will be carried out to match current aviation needs and will start at the right time following the feasibility study as a responsible institute for public money. Further, action will be taken to facilitate current operation on demand.</p> | <p>Action should be taken to fulfill the requirements of Cabinet decision & Committee report.</p> |
| <p>(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 analyzing 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.</p> | <p>AASL has prepared the business plan for JIA and has proposed to conduct a feasibility study for JIA before any further development of infrastructure.</p> | <p>Detailed marketing plan should be prepared to increase frequency of existing airline and attract new airlines.</p> |

(d) Performance of Batticaloa International Airport (BTIA)

The Batticaloa International Airport was reopened for civilian operations on 25 March 2018. A sum of Rs. 116 million was incurred

Due to runway length limitations at BDA, aircraft beyond the Aerodrome Reference Code (ICAO) "A" and "B" categories cannot land there.	Action should be taken to operate and upgrade Batticaloa International Airport in more efficient
---	---

as operating expenditure over the past five years without generating any income. During the year under review, revenue earned amounted to Rs. 674,000, while the operating expenditure incurred was Rs. 29 million. Despite being upgraded to an international airport, no international aircraft movements were recorded during the period from 2020 to 2024.

More often, these categories do not include international aircraft, unless a small aircraft being ferried or some one travelling for adventure purposes from India or Maldives as they have limited Endurance with slow speed meaning BDA can predominantly function only as a domestic airport as its runway length is limited to 1500 meters / 5000 feet . Even from this perspective, achieving the expected ROI depends on the growth of domestic tourism, which has yet to show significant progress. Consequently, AASL has proposed to the Line Ministry that BDA's international status be withdrawn, officially making it a domestic airport. Furthermore, as an immediate cost-saving measure, AASL has suggested handing BDA back to the Sri Lanka Air Force (SLAF) for routine operations.

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, 205th place in terms of total passenger, and the 89th place in total cargo transportation. However, as per the ACI report of year 2024 (preliminary), out of 1817 airports, Sri Lanka was in the 361th place in terms of total movement, the 228th place in terms of total passenger, and the 107th place in total cargo transportation.

Agreed.

The Company should take proactive measures to enhance Sri Lanka's standing in the global aviation industry.

(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.

Agreed.

The Company should take proactive measures to enhance Sri Lanka's standing in the global aviation industry.

However, as per the ACI report of year 2024 (preliminary), out of 540 airports, Sri Lanka was in the 71th place in terms of total Movement, the 59th place in terms of total passenger, and the 31th place in total cargo transportation.

3.5 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
As of 07 March 2025, six locations totaling 1,522 square feet at MRIA Airport had not been utilized to generate income for the company through rentals.	The primary reasons for the vacancies include: pre-termination of operator agreements due to underperformance at two locations; lack of successful bids for one location; ongoing requirement assessment for two locations; and absence of demand for one location.	Committee should be appointed to assess the available opportunities and to get recommendation. After that action should be taken accordingly.

3.6 Assets Management

Audit Observations	Management Comment	Recommendation
(a) As per the information submitted to the audit, twelve vehicles valued at Rs. 7.5 million could not be verified since vehicles were not available at the company.	Out of 45 vehicles, 7 vehicles have been missed out in the revaluation process. Action is being taken to conduct revaluation for these 13 vehicles.	The company should improve asset management practices to enhance accountability, reduce the risk of asset loss or misappropriation, and ensure the reliability of financial reporting.
(b) Approval was given to allocate alternative land for the Akuregoda site and to provide Rs. 161 million for establishing a new high-frequency transmission center. However, the ownership of the land allocated from the Seetha Eliya Kandapola forest had not been transferred to the company, and no	A letter dated 01st July 2024 was submitted by AASL to the Secretary to the Ministry of Ports, Shipping and Aviation on the referred subject seeking the intervention to have a suitable alternative land to AASL, to proceed with obtaining the claim of Rs.161 million and Assuring the ownership of the lands already allocated without incurring any financial commitment to AASL.	Action should be taken to fully implement the Cabinet decision, including the establishment of the new transmission center using the allocated funds, to avoid further delays and ensure proper utilization of public resources.

action had been taken to obtain the funds.

(c) The cost incurred for the construction of the Mattala Airport Security Building Complex during the year 2013 and 2014 was Rs. 18.7 million and the construction works remained incomplete even as at the end of the year under review.	This project was included in budget proposal in 2024 and 2025, approval was not granted by the management to proceed due to ongoing investment proposal.	The Company should conduct an immediate assessment of the Security Billet Complex to determine its current condition, usability, and value.
(d) Since the company formation in 1983 until 31 December 2024, the Company had invested a sum of Rs. 105,517 million on Property, Plant, and Equipment, excluding lands and assets at Mattala for airport infrastructure development as a statutory service provider, without obtaining concurrence from the Civil Aviation Authority of Sri Lanka.	AASL is holding moveable and immoveable property on behalf of the State and is continuing to carry out developments on the lands vested with CAASL. Former Secretary to Line Ministry /Chairman of Audit & Management Committee of the Line Ministry has also stated that AASL can continue to carry out developments and the land & building ownership matter is beyond AASL. (Refer AMC Minute 28.02.2024). Also at the recent pre-COPE meeting held on 3rd May 2025 at the Line Ministry in the presence of DGCA, Secretary to the Line Ministry clearly stressed that this matter will be taken up with the Ministry of Finance as this is beyond the scope of AASL.	The Company should ensure all future capital investments related to airport infrastructure development are undertaken with prior concurrence from the Civil Aviation Authority of Sri Lanka, in compliance with applicable regulatory requirements.

3.7 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
During the year, the Company planned 63 projects over Rs. 50 million each, totaling Rs. 30,495 million. Out of the 19 procurements scheduled for completion in 2024, only 4 were finalized. The remaining 15 projects, valued at Rs. 5,984 million, were still in early procurement	Thirty-nine projects are in progress, and two projects have been cancelled.	The Company should strengthen its project planning and procurement processes to ensure timely execution, particularly for projects classified

stages, including 10 marked as urgent.

as urgent.

3.8 Defects in Contract Administration

Audit Issue	Management Comment	Recommendation
(a) Package A - Construction of Passenger Terminal Building and Associated works.		
(I) The above project had been initiated with the aim of increasing the passenger handling capacity of the Bandaranaike International Airport and expanding the airport infrastructure, thereby improving passenger convenience, thereby contributing to improving connectivity with foreign countries and promoting economic growth, including the tourism industry.		
(i) Agreements were signed with JICA in 2012 and 2016 to obtain financial facilities totaling 74,397 million Japanese Yen for the project. By 31 December 2024, only 26,862.38 million Yen (36% of the total loan) had been utilized. The 2012 loan agreement (SLP-104) includes a 40-year repayment period with a 10-year grace period, after which the first installment of 475 million Yen was paid on 16 March 2022. Due to underutilization of the loan, the Company incurred commitment charges amounting to Rs. 351.8 million (247.9 million Yen) from 22 April 2013 to 31 December 2024, and interest payments totaling Rs. 61.2 million (35.7 million Yen) were also due by the end of that period.	Due to the project delay, commitment charges and additional interest payments had to be made to JICA on the loan.	The Company should take immediate steps to improve project planning, execution, and monitoring mechanisms to avoid delays in project implementation, particularly when funded through external loans.
(II) (i) In line with a Cabinet decision in December 2007, a Japanese joint venture was selected to provide planning and consultancy services	Due to evolving circumstances in the country, it became necessary to revise the design to align with future aviation	The Company should have conducted thorough feasibility assessments and ensured long-term demand

for expanding Bandaranaike International Airport's passenger capacity from 6 million to 12 million annually. Between 2009 and 2012, the company completed planning work for which AASL paid Rs. 344.5 million. However, in 2013, the project was redesigned to target a higher capacity of 15 million passengers, rendering the original plan unusable and the associated expenditure uneconomical.

forecasting prior to engaging in major consultancy and planning contracts.

(ii) The same Japanese joint venture was selected to redesign the project, signing an agreement on 03 March 2014 for a 47-month consultancy period with a total fee of US\$1.3 million, Japanese Yen 1,367.5 million, and Rs. 519.6 million. Due to amendments in 2016 and 2023—addressing architectural changes, terminal layout adjustments, roof design modifications, extended supervision for Package B, and changes to Package A's implementation, the consultancy period was extended by 84 months (7 years), increasing the total contract duration to 131 months. Additional fees of US\$178,589, Japanese Yen 1,612.4 million, and Rs. 808.6 million were incurred. From 2014 to 31 March 2024, a total of Rs. 4,563.4 million (equivalent to Japanese Yen 2,772.4 million) was paid for planning and consultancy services.

The original contract amount was increased with necessary approvals in accordance with applicable procedures.

The Company should strengthen contract management and project scope control to minimize frequent amendments and extensions that lead to increased costs and prolonged timelines.

(III) It had been decided in the year 2014 to carry out construction works related to this project under Packages A, B and C and the construction contracts had been awarded as package A and as package B by re-combining packages A and C. However, the item for the construction

Agreed.

The Company should take immediate steps to improve project planning, execution, and monitoring mechanisms to avoid delays in project implementation, particularly when funded through external

of a multi-storied car park in Package A above (which was included in Package C) had been removed from the Project under the scope change and a sum of Rs. 2,296 million allocated for that purpose had been included in the project cost. The following observations were made regarding the construction.

- (i) Under Package B, the construction of the Remote Apron& Taxiways will be carried out and it had been expected to increase the number of aircraft parking spaces currently available at the Airport from 25 to 48. Agreed.
- (ii) The agreement for this construction contract had been signed on 28 February 2017 with Hazama Ando Corporation, which submitted the lowest bid and its value was Rs.6,117.8 million. Although the construction works of this package, which has a contract period of 30 months, was scheduled to be completed on 24 October 2019, the construction works thereon had been completed on 26 January 2022. A sum of Rs. 6, 884.6 million had been paid to Hazama Ando Construction Company for the construction works. However, a sum of Rs. 8448.6 million had been capitalized for the construction and other assets related to this contract. Agreed.
- (iii) According to the Head of Project's explanation of the relevant operational activities, 5 of the 23 airport parking lots have been closed due to the construction of Package A and it had also been reported that there is also a situation where 14 more aircraft

loans.

The Company should take immediate steps to improve project planning, execution, and monitoring mechanisms to avoid delays in project implementation, particularly when funded through external loans.

The Company should take immediate steps to improve project planning, execution, and monitoring mechanisms to avoid delays in project implementation, particularly when funded through external loans.

The Company should take immediate steps to improve project planning, execution, and monitoring mechanisms to avoid delays in project implementation, particularly when funded through external

parking lots cannot be used as expected.

loans.

(iv) As per the letter sent by the consulting company dated 09 June 2023 regarding the problematic situation that had arisen regarding the operational performance of Package B, it had been informed that the re-marking of aircraft parking lots would be carried out with the funds of consulting company. Even though special permissions from the Ministry of Finance and Sri Lanka Customs had been requested to bring the necessary materials relating to that into the country, evidence that the Company has carried out the relevant works so far were not presented to the audit. Also, a contract agreement in this regard had been entered into between the Company and the Japanese joint venture on 12 February 2024. Agreed.

The Company should take immediate steps to improve project planning, execution, and monitoring mechanisms to avoid delays in project implementation, particularly when funded through external loans.

(IV) The Passenger Terminal Building & Associated Works Construction Contract which is Package A had been awarded to the Taisei Corporation for 41,553.9 million Japanese Yen and Rs. 35,135.8 million, equivalent to a total of Rs. 105,569.7 million, on 04 March 2020. The contract had been scheduled to be commenced on 15 December 2020, and be completed on 13 December 2023. Due to the circular issued by the Ministry of Finance on 12 April 2022 titled Interim Policy Regarding the Servicing Sri Lanka's External Public Debt, JICA had suspended the release of loan installments for the Project. Agreed.

The Company should take immediate steps to improve project planning, execution, and monitoring mechanisms to avoid delays in project implementation, particularly when funded through external loans.

(i) As a result, by the time the contractor stopped construction on 09 December 2022, two years had elapsed from the contract period and even though the physical Agreed.

The Company should take immediate steps to improve project planning, execution, and monitoring mechanisms to avoid delays in project

progress should be 30 percent by that date, the actual progress was only 5.44 per cent. An amount of Rs. 37,311.3 million had been paid to the contractor for the construction contract by 31 December 2024.

implementation, particularly when funded through external loans.

(ii) After the construction work was stopped, 2 agreements worth Rs.3732.9 million were signed with private firm to carry out the identified protective works and an identified scope of works and Rs.1,328.7 million was paid for the construction work as of December 31, 2024. Furthermore, although the (Identified Protective Works) contract had been completed by that date, the physical progress of the other contract was 73 percent.

Both of works are parts of main contract package A. Therefore it is not an additional cost to the project.

Regular monitoring and progress reviews should be conducted to avoid further delays and cost overruns. Additionally, future contract planning should include detailed timelines, clear scopes of work, and risk mitigation strategies to prevent disruptions similar to those that necessitated the signing of new agreements.

(iii) Accordingly, including the amount paid to Taisei Company and the remuneration paid for the contract with a private firm after the termination of the contract, as of December 31, 2024, an amount of Rs.38,640 million had been paid to the contractors for the construction contracts. In addition, Rs.43,735.7 million, including consultancy service costs and salaries of the Project Management Unit, was shown in the financial statements as work in progress.

Agreed.

Regular monitoring and progress reviews should be conducted to avoid further delays and cost overruns. Additionally, future contract planning should include detailed timelines, clear scopes of work, and risk mitigation strategies to prevent disruptions similar to those that necessitated the signing of new agreements.

(V) After the construction of the project was stopped, assets of Rs.192.3 million taken over by AASL were capitalized. According to the fixed assets list, these assets included Rs.3 million in furniture, Rs.52.8 million in communication equipment, office equipment, machinery and Rs. 136.5 million in structures.

(i) The 60 monitors received from Taisei, were stored unused in two

Monitors were stored at two separate locations due to space constraints. The

The management should conduct a detailed

departments. Although the asset register listed identification numbers for the monitors, these numbers were not physically marked on the monitors themselves, preventing proper physical verification. Furthermore, while the value of 31 monitors could be identified as Rs. 877,300, the value of the remaining 29 monitors could not be ascertained.

asset tag were also received after the audit and have since been attached to the relevant items.

reconciliation between the asset register and the distribution records maintained by the Information.

(ii) Following the suspension of construction on December 9, 2022, AASL accepted materials and equipment purchased by the contractor, valued at Rs. 3,920 million. Of this, items worth Rs. 1,550 million were stored in private warehouses under agreements with the contractor's local sub-contractors.

Agreed.

The project management should immediately verify the condition, quantity, and security of the materials and equipment valued stored in private warehouses under agreements with local sub-contractors of the contractor who had ceased work on the Project.

(iii) Subsequently, On January 20, 2023, the AASL Chairman appointed nine committees, with Committee No. 03 recommending the auction of unused materials including roofing materials and other supplies to avoid losses from expiration. However, due to the absence of timely action by management, a private warehouse was rented, incurring Rs. 5.2 million as a security deposit and Rs. 45.6 million in rent (from December 1, 2023, to December 31, 2024). The warehouse contained expired assets valued at Rs. 79.6 million and JPY 3.1 million.

Agreed.

Management Should take immediate action to implement the recommendations of Committee No. 03, including the auctioning of unused and excess materials, to prevent further financial loss due to asset expiration and storage costs.

(iv) According to the evaluation and recommendation of Committee No. 07 issued on 17 February 2023, the Company has stored the incinerator asset under the supervision of the subcontractor in the same location where it was stored by the

The committee's decision was revised due to transportation risk and the challenges faced by the local agent.

The Management should take immediate action to implement the recommendations of Committee to prevent further financial loss due to asset

contractor and a total of Rs. 16.7 million had been paid for that, as warehouse rent and other fees for the period from 09 December 2022 to 08 January 2025. However, the Committee proposed to move this machine from that warehouse to the above warehouse and it had been informed that there is a possibility to save Rs. 362,904 per month from that. The Company had to incur additional storage costs of Rs. 3.9 million from March 2023 to December 2024 due to non-implementation of those recommendations.

expiration and storage costs.

- | | | |
|---|--|--|
| <p>(v) In addition to the above materials, the value of the Roof Installation Materials and Passenger Boarding Bridges ordered by the contractor for the Project from foreign countries was Rs. 720 million and the materials had been decided to be disposed of in foreign countries.</p> | <p>Materials valued at Rs. 632 million are still pending Indian Government approvals, and the claim for partially manufactured materials was rejected due to a change in manufacturer without the consultant's approval.</p> | <p>The company should reassess its decision to dispose of the roof installation materials and passenger boarding bridges in foreign countries to avoid further financial losses resulting from asset expiration and storage costs.</p> |
| <p>(vi) The payment had been refused stating that the manufacturer of Roof Installation Materials valued at Rs. 76 million was changed without having the consent of the consulting company. Further, the Passenger Boarding Bridges valued at Rs. 12 million had been disposed of in foreign countries under the supervision of a third party.</p> | <p>Materials valued at Rs. 12 million have already been disposed of under third-party supervision.</p> | <p>The company should reassess its decision to dispose of the roof installation materials and passenger boarding bridges in foreign countries to avoid further financial losses resulting from asset expiration and storage costs.</p> |
| <p>(VI) According to the Paragraph 7.7 of the Project Memorandum signed between the Company and the Japan International Cooperation Agency for this Project and Paragraph 9.3 of the Circular No. 2016/1 of the Department of Management Services dated 24 March 2016 on "Number of Employees and Wages in Projects", it is stated that the Secretary of the Line Ministry should appoint a Project</p> | <p>The Project Steering Committee held meetings regularly during the pre-COVID period, up until 10 June 2019. However, the PMU was unable to convene meetings during the COVID period.</p> | <p>The Project Steering Committee should be reactivated or reconstituted as necessary and convene meetings at the required frequency of once every two months.</p> |

Steering Committee and the Committee should meet once every 2 months. Nevertheless, due to the committee was appointed from 03 December 2015 to 19 January 2022, only 9 meetings were held in the 6-year period, it was further observed that the Committee's contribution to the progress of the project and future of the project was not adequate and that the attendance of members to the Committee was not at a satisfactory level.

- | | | | |
|--------|--|---------|---|
| (VII) | A number of 47 employees had participated in training, factory inspections and other activities related to this project and 43 out of them had participated in observation and training in 11 foreign countries. It was observed that an expenditure of Rs. 7.6 million and JPY 18.2 million had been incurred for this. | Agreed. | The Company should evaluate the effectiveness and outcomes of the foreign training and observation programs to ensure that the significant expenditure yielded tangible benefits for the project. |
| (VIII) | The approved staff for the Project Management Unit is 52 including 39 on a contract basis, and the 13 staff from AASL on part time. It was observed that a total of 20 staff, including 10 full-time staff and 10 part-time staff, were working as of December 31, 2024, and there were 31 vacancies. | Agreed. | The Company should take immediate steps to fill the critical vacancies within the Project Management Unit to ensure the effective execution and monitoring of project activities. |
| (IX) | Bids had been invited from 24 September 2024 to 23 December 2024 to re-commence this Project and two Pre-bid Meetings were held on 04 October and 12 November 2024. According to the information submitted to the audit, 3 bidders had received bid documents by that time and out of that, two of them had requested an extension of the time given for submitting bids. Accordingly, the Procurement | Agreed. | The Company should closely monitor consultancy services to ensure that the additional costs are justified and aligned with project goals. |

Committee had approved the extension of the deadline until 18 March 2025 and one more bidder had received bid documents during that period. By now, that date had been extended again to 25 March 2025 .

(i) In addition, the third amendment to the agreement of obtaining consultancy services to resume work on this Project had been signed on 01 November 2024 and it will be in effect until July 2028. An additional cost of 445.5 million Japanese Yen and Rs. 403.5 million will be incurred to obtain consultancy services by this amendment.

Agreed.

The Company should closely monitor consultancy services to ensure that the additional costs are justified and aligned with project goals.

(ii) Similarly, since AASL is unable to reliably measure the liabilities that may arise after the completion of the Project, it had been stated in the financial statements for 2024 submitted for audit that, the provisions had not been made available for that purpose.

Reply not received.

The company should develop a reliable methodology to assess and estimate potential liabilities that may arise after the completion of the Project.

(iii) Even though it had been expected that the resumption of this project would be implemented based on pre-planned information, it was observed that the expected capacity level would be reached by the year 2029 as per the forecasts submitted by the Company for the National Civil Aviation Master Plan (NCAMP).

Reply not received.

The Company should reassess the project implementation strategy in light of the revised capacity forecast outlined in the National Civil Aviation Master Plan (NCAMP).