

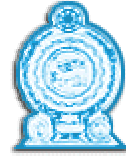
**TELECOMMUNICATIONS REGULATORY  
COMMISSION OF SRI LANKA**

***ANNUAL REPORT***

**For**

***Year Ended December 31, 2002***

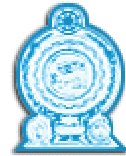
**No. 276  
Elvitigala Mawatha  
Colombo 08.**



**TELECOMMUNICATIONS REGULATORY COMMISSION  
OF SRI LANKA**

**VISION**

**TO BE AT THE FOREFRONT  
OF TELECOMMUNICATIONS  
REGULATION**



**TELECOMMUNICATIONS REGULATORY COMMISSION  
OF SRI LANKA**

# **MISSION**

**TO CREATE THE OPTIMUM  
CONDITIONS FOR THE TELE-  
COMMUNICATIONS INDUSTRY  
IN SRI LANKA BY SERVING**

- ◆ **THE PUBLIC INTEREST IN  
TERMS OF QUALITY,  
CHOICE AN VALUE FOR  
MONEY;**
- ◆ **THE SERVICE PROVIDERS  
WITH EQUITABLE ACCESS  
TO SPECTRUM AND OTHER  
COMMON RESOURCES;**

**AND**

- ◆ **THE NATION IN ITS DRIVE  
FOR SOCIO – ECONOMIC  
ADVANCEMENT**

**THROUGH A SKILLED AND  
EHTICAL WORKFORCE**

No. 276  
Elvitigala Mawatha  
Colombo 08.

The Honorable Minister of Mass Communications  
Ministry of Mass Communications  
World Trade Center  
Level 7, 17<sup>th</sup> and 18<sup>th</sup> Floors  
Echelon Square  
Colombo 01

Honorable Sir,

In terms of Section 14 of the Finance Act, No.38 of 1971, I have the honor to forward herewith the following on behalf of the Commission in respect of the year 1<sup>st</sup> January to 31<sup>st</sup> December 2002.

1. The Annual Report on the activities of the Commission
2. The Audited Financial Statements
3. Comments of the Auditor General

Yours faithfully

***Kumar Abeysinghe***  
***Chairman***  
***Telecommunications Regulatory Commission of Sri Lanka***

**TELECOMMUNICATIONS REGULATORY COMMISSION  
OF SRI LANKA  
MEMBERS OF THE COMMISSION 2002**

**Chairman** - Mr. Kumar Abeysinghe

**Members of the Commission** - Mr. Themiya L.B. Hurulle  
(Director General of Telecommunications)

- Dr. R.M.K. Ratnayake

- Mr. Lakshman Perera

**Secretary to the Commission** - Mrs. A.K.A.Silva

# TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA – EXECUTIVE OFFICERS 2002

*Director General* - Mr. Themiya L.B.Hurulle

*Directors*  
- Mr. K.S.G. Wijenayake  
- Mrs. P.R.Amarasiri  
- Mr. P.S.Gunawardena

*Secretary to the Commission* - Mrs. A.K.A.Silva

*Chief Internal Auditor* - Mrs. U.A.Samaratunga

*Deputy Directors*  
- Mr. R.C.Ratnayake  
- Mr. R.G.H.K.Ranatunga  
- Mr. P.N. Selvakumar  
- Mrs. C.J. Waragoda  
- Mr. W.D.de Alwis  
- Mr. H.P. Karunarathne

*Assistant Directors*  
- Mrs. Y.N. Karunajeewa  
- Mrs. R.M.T.K.P. Livera  
- Miss. K.S.M.Vishaka  
- Mr. I.A.Gaffoor  
- Mr. E.N.P.K.Ratnapala  
- Mr. M.C.M.Farook  
- Mr. R.M.J.K.B.Ratnayake  
- Mr. C. Mendis  
- Mr. R.M.S.B.Ramanayake  
- Mr. P.K.Udugampola  
- Mrs. W.C.De Silva  
- Mr. R.A.K.Ranawaka  
- Mr. R.P.Abayadeera  
- Mr. A.S.Hapuarachchi  
- Mr. H.M.J.P.Herath  
- Mrs. H.P.H.M.Pathirana  
- Mr. H.W.K.Indrajith  
- Mrs. G.C.P.Moragoda  
- Miss. R.S.Gooneratne  
- Mr. L.Ganeshamoorthy

*Assistant Directors*

- Mr. S.P.S. Perera
- Mr. J.A.S. Gunanandana
- Miss. H.M. Sriyani
- Ms. W.R.M.S. Indikadulla
- Mr. K.A.D. Fernando
- Mr. M.A.P. Kumaranayake
- Mr. I.M. Jawzi
- Mr. S.E. Wakista
- Ms. S.A. Ramani Kamalanayana
- Mr. M.P. Gunasinghe
- Mr. L.A. Supulsiri

**REPORT OF THE TELECOMMUNICATIONS REGULATORY  
COMMISSION OF SRI LANKA FOR THE YEAR ENDED  
DECEMBER 31, 2002**

The Telecommunications Regulatory Commission of Sri Lanka has pleasure in presenting its 5<sup>th</sup> Annual Report covering activities of the Commission during the year ended December 31, 2002 in terms of Section 14 of the Finance Act, No. 38 of 1971.

***Members of the Commission***

Mr. Kumar Abeysinghe	-	Chairman
Mr. Themiya L.B.Hurulle	-	Director General of Telecommunications
Dr. R.M.K.Ratnayake	-	Member
Mr. Lakshman Perera	-	Member

**Significant Events**

During the year under review the Commission could perform its duties and responsibilities and strengthen itself as a regulator with the following significant events.

***1. REGULATORY WORK***

The Telecommunications Regulatory Commission of Sri Lanka (T.R.C.S.L.) has carried out its role of a Regulator in the field of Telecommunications. One of its main functions is examining Tariff proposals put up by Telephone and Internet Service providers from time to time, checking their justification, adjusting Tariffs according to Licence requirements and authorizing such Tariffs, if justifiable. This has been done in a transparent manner, to the Subscribers ( Customers) and the Service Provider and to encourage growth in these activities.

At present there are 03 Fixed Line Telephone Service Providers, 04 Mobile Telephone Service

Providers and 32 Internet Service Providers. The numbers are as follow. (app.)

Fixed Line Telephones users:	865,000
Mobile Telephone users:	788,000
Internet Users:	66,000

## **2. RADIO FREQUENCY SPECTRUM MANAGEMENT**

The TRCSL has administered the Management of the Radio Frequency Spectrum. (for T.V., Radio and Data Transmissions) on behalf of the Government and the Public, by ensuring that Radio Frequencies issued are being used according to specified International standards and in a manner which do not affect Users and the Public. Monitoring of frequencies are carried out using TRCSL's Fixed and Mobile Frequency Monitoring Equipment.

The No. of frequencies issued during the period are : 876

The No. of unauthorized and harmful frequencies detected and preventive action taken is : 20.

## **3. PROVISION OF PAYPHONE SERVICES FOR PUBLIC USE**

The TRCSL provided subsidies up to a maximum of Rs. 50,000 per installation in the setting up of Public Payphone Booths in rural and estate sectors. In addition, the TRCSL expedited the installation of Public Payphones in Shops and other places of public access. Thus the total number of public payphones so commissioned during the year amounted to 100.

## **4. TELEPHONE AND RADIO EQUIPMENT VENDORS' LICENCES**

To ensure the government revenue through Vendor licensing, the TRCSL streamlined the issuance of Vendor Licenses and renewal of such Licenses. The Numbers are as follows:

New Vendor Licences : 55

Renewed Vendor Licences : 201

## **5. TELEPHONE AND RADIO EQUIPMENT TYPE APPROVALS**

TRCSL has made available to the Public the list of approved Telephone Instruments in Sri Lanka (Fixed and Mobile) These lists are also issued to SRI LANKA CUSTOMS to facilitate clearance for such equipment at point of import.

**6. PUBLIC AWARENESS PROGRAMMES**

The TRCSL launched Public Awareness Programmes on its role and Public interest on Telecommunications services through Programmes at District and National level. In addition the TRCSL participated in National Exhibitions. This year, the TRCSL participated at INFOTEL 2002 ( Information Technology Exhibition) and displayed its activities to Visitors to the exhibition. Presentations were also made on activities were made in the TRCSL Auditorium to Professional and Public Organizations from time to time.

**7. CONTRIBUTION TO GOVERNMENT'S '100-DAY PROGRAMME'**

As a part of the Government's 100 – day Programme, the TRCSL provided an Automatic Telephone Exchange to an Institute of Disabled Children. Payphone facilities were provided to a RANAVIRU Village and Elders' Home and at the COUNCIL FOR THE BLIND (mainly for WHITE CANE users )

**8. FINANCIAL CONTRIBUTION TO THE GOVERNMENT TREASURY**

TRCSL contributes to the Government Treasury, funds collected from Telecom and Internet Service Providers, Broadcasters, Equipment Vendors etc. During this year the TRCSL collected Rs. 470 Million and remitted this sum to the Government Treasury. Furthermore, at present the TRCSL Investment in the Government Treasury is Rs. 2,124 MILLION.

**9. NEW 'NATIONAL COMMUNICATIONS POLICY'**

Drafting of a new National Communication Policy for Sri Lanka was started in 1999. ( This Policy being essential to adjust and keep up with National and International changes in the field of Communications.) Several Public and Service Provider Consultations were had as a part of the process. The Hon. Cabinet of Ministers has now approved this new Policy for implementation.

**10. (TELEPHONE) INTERCONNECTION AND INTERNATIONAL GATEWAY LICENCING CONSULTANCY**

The TRCSL commissioned International Consultants (through the Ministry of Economic Reforms, Science and Technology) to draw up of procedures to implement effective National Telephone interconnection arrangements among telecom service providers and to Grant new licenses to Applicants for the provision of international voice services.

**11. *THE INTERNATIONAL TELECOMMUNICATION UNION (I.T.U) AND THE ASIA PACIFIC TELECOMMUNITY (APT)***

TRCSL is the Official Administrator of Sri Lanka's representation in the INTERNATIONAL TELECOMMUNICATION UNION (I.T.U.) and ASIA – PACIFIC TELECOMMUNITY ( A.P.T.). The benefits amongst others, in belonging to the above are that SRI LANKA can benefit from the International experience and standards in the Sector of Telecommunications. Furthermore, this allows Telecom Professionals in Sri Lanka to avail themselves of International Training and other benefits in Telecommunications and Regulatory activities.

**12. *CONSTRUCTION AND COMMISSIONING OF TELECENTRES***

The TRCSL is currently implementing the construction and commissioning of 07 TELECENTERS in Badulla District, in association with the Department of Posts, to enable the Public have access to modern facilities in Posts and Telecommunications. Accordingly, 01 TELECENTER has already been opened for Public use and the remaining 06 will be opened in due course.

**13. *CONSTRUCTING TRAINING CENTER FOR BROADCASTING, TELECOMMUNICATION AND COMPUTER EQUIPMENT***

Construction of above, in the Kalutara District has commenced and training of unemployed youth to carry out basic repairs to broadcasting, telecommunication and computer equipment will commence before the end of this year. By this programme, it is intended to encourage youths to get aligned to the field of Broadcasting, Telecommunications and Computer repair activities which will eventually guide them to become professionals and obtain employment or commence their own repair centers. The number of trainees at any one time would be 150.

## Financial Performance

For the year 2002 the Net Surplus of the Commission was Rs.363,239,983 and it was Rs. 358,062,599 for the year 2001. The increase in Net Surplus in year 2002, compared to year 2001 is Rs.5,177,384. During the period ended December 31, 2002 Administration and Establishment expenses have gone up by Rs.8,574,069 (6.8%). Further the Regulatory expenses has gone up by Rs. 24,990,156 as a result of increased public awareness programs and payment in respect of Telecenter Project. The significant reason for increase in Net surplus is the increase in income by Rs. 108,335,122 during the year.

A summary of Revenue of the Commission is set out below.

<i>Source of Income</i>	<i>2002</i> <i>(Rs.000)</i>	<i>2001</i> <i>(Rs.000)</i>
Radio Frequency Charges	341,557	305,358
System Operator Licenses and Cess Fees	273,889	176,016
Vendor Licenses	1,099	1,093
Other Sundry Income	1,458	28,087
	-----	-----
	<b>618,003</b>	<b>510,554</b>
	=====	=====

## Fixed Assets

Fixed Assets, as at 01.01.2002 at cost was Rs. 710,389,280 and at the end of 2002 it was Rs. 711,888,455. Additions to Fixed Assets during the year under review was Rs. 2,768,508, which includes Rs. 1,679,726 for Computers & Printes. The total amount provided for depreciation for Fixed Assets for the year was Rs. 54,375,334 which resulted in bringing down the written down value of Fixed Assets as at 31.12.2002 to Rs. 533,126,642.

## Cash Flow

Net cash generated from operating activities of the Commission for the year 2002 was Rs. 390,697,986. These cash inflows were used in investing activities including depositing of Rs. 470,000,000 in Temporary Deposit Account at Treasury. The net decrease in cash and cash equivalents during the year was Rs. 78,808,785.

### **Treasury Deposit**

During the year under review Rs. 470,000,000 was remitted to Temporary Deposit Account at the General Treasury from the income of the Commission.

### **Participation in International Programs**

Thirty Nine ( 39 ) officers of the Commission took part in international programs in Telecommunications and the area of Regulatory affairs during the year 2002, through which they could enhance their skills, knowledge, experience etc.

**The Chairman,  
Telecommunications Regulatory Commission of Sri Lanka.**

Report of the Auditor General on the Accounts of the Telecommunications Regulatory Commission of Sri Lanka for the year ended 31 December 2002 in terms of Section 14(2)(c) of the Finance Act No.38 of 1971

The audit of accounts of the Telecommunications Regulatory Commission (TRC) of Sri Lanka for the year ended 31 December 2002 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 Section 13(1) of the Finance Act No. 38 of 1971. My observations which I consider should be published with the annual report of the Commission in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act will be furnished to the Chairman of the Commission in due course.

## **1.2 Scope of Audit**

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgments made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

## **2. Accounts**

### **2.1 Responsibility for Financial Statements and Audit**

The Board of Directors is responsible for preparing and presenting the financial statements in accordance with Sri Lanka Accounting Standards. My responsibility is to express an opinion on the financial statements presented to audit.

### **2.2 Audit Opinion**

Except for the effect on the financial statements of the matters referred to in paragraph 2.3 of my report, I am of opinion so far as appears from my examination and to the best of my information and according to the explanations given to me, the financial statements have been prepared and presented in accordance with the generally accepted accounting principles and the stated accounting policies as set out in Notes No. 1 to 1.4.2 to the financial statements and give a true and fair view of the financial position of the Commission as at 31 December 2002 and the financial results and cash flow for the year then ended.

### **2.3 Comments on Accounts**

#### **2.3.1 Accounting Deficiencies**

A sum of Rs. 2,124,000,000 deposited in the General Treasury had been inappropriately shown in the financial statement as an investment.

#### **2.3.2 Accounts Receivable**

Although debtors aggregating Rs. 54,665,410 had been outstanding for over two years, action had not been taken to recover these debts.

#### **2.3.3 Lack of Evidence for Audit**

Receivables aggregating Rs. 475,564,988, payables aggregating Rs. 40,523,880 and fixed assets valued at Rs. 711,888,455 could not be satisfactorily vouched or accepted in audit due to the absence of confirmations and Board of Survey Reports.

#### **2.3.4 Non – compliance with Laws, Rules and Regulations.**

The following instances of non-compliance were observed in audit.

##### **Reference to Laws, Rules and Regulations**

##### **Non - compliance**

##### **(a) Finance Act No. 38 of 1971**

##### **(i) Section 11 (b)**

A sum of Rs. 140,000,000 had been invested in Treasury Bonds without the requisite approval.

##### **(ii) Section 13 (6)**

A copy of the draft annual report of the Commission for the year 2002 had not been rendered to audit along with the financial statements.

##### **(b ) Inland Revenue ( Amendment) Act No. 24 of 1997 and Public Finance Circular No. PF/PE 6.**

The Commission had failed to recover the PAYE Tax due from its officers liable to that tax for the period from 1997 to 2000 and the Bank had remitted a sum of Rs. 1,434,342 in respect of the above tax to the Department of Inland Revenue on directive of that Department and had debited the above amount to the current account of the Commission. Hence, the Commission had paid the above tax on behalf of its officers contrary to the provisions in the Inland Revenue ( Amendment ) Act and the circular under reference.

##### **(c) Management Services Circular No. 14 of 3 January 2002.**

Twenty eight employees had been recruited on contract basis by the Commission in September 2002 in contravention of the provisions in the Management Services Circular referred to.

### **3. Financial and Operating Review**

#### **3.1 Financial Results**

The operations of the Commission during the year under review had resulted in a surplus of Rs. 363.240 million as compared with the corresponding surplus of Rs. 358.063 million in the preceding year thus showing an increase of Rs. 5.177 million in the surplus.

#### **3.2 Items of a Contentious Nature**

- 3.2.1.** It was observed in audit that a sum of Rs. 59,743,560 had been due as at 31 March 2002 as licence fees from individuals / institutions who had been reserved with radio frequencies for commercial use contrary to the provisions in the Sri Lanka Telecommunications Act, No. 25 of 1991.

The procedure for licencing and collection of fees does not appear to have been strengthened even after the commissioning of the Frequency Management and Monitoring System in April 2001 with financial assistance from the World Bank. The weaknesses in the procedure had resulted in the loss of revenue to the Commission as well as to the Government and also denied the assurance of maximum utilization of the radio frequencies. It was also observed that the Commission had allowed the use of radio frequencies based on the invoices raised without actually collecting the licence fees, which is contrary to the provision of the Act.

Such reservations of radio frequencies which remain unutilized by the individuals / institutions result in the blocking the use of those frequencies by potential users as well as the potential revenue sources of the Commission.

- 3.2.2** An Officer of the Commission who had been sent on compulsory leave with effect from 15 May 2000 had been paid salaries amounting to Rs. 210,483 and Rs. 9,702 as transport allowances and telephone charges for the period from the effective date of compulsory leave up to 31 December 2000. Although the Commission had decided to interdict the officer with effect from 4 June 2001, action had not been taken for the recovery of the loan of Rs. 122,600 due from that officer from his sureties

### **3.3 Investments**

The Treasury Bonds valued at Rs. 140,000,000 purchased by the Commission on 26 September 2002 had not been endorsed in the Commission's name.

### **3.4 Identified Losses**

Sums of Rs. 250,000 and Rs. 75,000 had been paid in November 2001 by the Commission as an advance and a refundable deposit respectively to lease out a building at Badulla for its provincial office. But, the building had remained unoccupied by the Commission up to October 2002.

### **3.5 Uneconomic Transactions**

A monthly news paper called " Janasandesaya " had been published by the Commission during the period March to November 2001 and discontinued thereafter. However, an expenditure of Rs. 3,938,224 had been incurred on account of this newspaper. If this newspaper had been published with the intention of improving the awareness of the activities of the Commission among the public, the reasons for its discontinuance is not clear.

### **3.6 Corporate Plan**

The Commission had not prepared a Corporate Plan covering the year under review.

### **3.7 Budgetary Control**

Major variances were observed between the budget and the actuals, thus indicating that the budget had not been made use of as an effective instrument of management control.

#### **4. System and Controls**

Special attention is needed in respect the following areas of control.

- (a) Investments
- (b) Tender Procedure
- (c) Receivables

**(S.C. MAYADUNNE )  
AUDITOR GENERAL.**

**FD/ACC/70**

01<sup>st</sup> July 2003

Auditor General  
Auditor General's Department  
Independent Square  
Colombo 07.

Dear Sir,

**Report of the Auditor General on the Accounts of Telecommunications Regulatory Commission of Sri Lanka for the year ended 31 December 2002 in terms of section 14 (2) (c) of the finance act no. 38 of 1971.**

With reference to your letter No. HP/L/TRC/FA/2002 dated 30, April 2003 on the above subject, we forward herewith our reply on your "Comments on the Accounts" the Commission for the year ended 31, December 2002.

Please feel free to contact us for any information or clarification in this regard.

Best regards,

**Telecommunications Regulatory Commission of Sri Lanka**

**Themiya L.B. Hurulle**  
**Director General**

### 2.3 Comments on Accounts

	<b>Reference to Audit Report</b>	<b>Comments of the Auditor General</b>	<b>Explanation of TRCSL</b>
2.3.1	Accounting Deficiencies	A sum of Rs. 2,124,000 deposited in the General Treasury had been inappropriately shown in Financial Statements as an investment.	Recorded in Account as Deposits in 2003 Accounts.
2.3.2	Accounts Receivable	Although debtors aggregating on 54,665,410 had been outstanding for over two years, action had not been taken to recover these debts.	Action has now been taken by DG discussion underway with General Treasury to examine possibilities of recovering amounts due from Govt. related entities from 2004 budget allocations and credit to TRCSL deposit account.  About 70% of the out standings are from Govt. related entities.
2.3.3.	Lack of evidences for Audit	Receivables aggregating Rs. 475,564,988, payable aggregating Rs. 40,523, 880, and Fixed Assets valued at Rs. 711,888,445 could not be satisfactorily vouched or accepted in audit due to the absence of Confirmations and Board of Survey Reports.	a) Letters requesting to confirm Debtors and Creditors balances were circularized, but only few had been replied.  b) Fixed Assets Verification Report was not ready at the time of field work of the auditor. Recorded to avoid instances of this nature in future.

### 2.3.3. Non – Compliance with Laws Rules and Regulations

	<b>Reference to Laws, Rules and Regulations</b>	<b>Non Compliance</b>	<b>Explanation of the Commission</b>
<b>a)</b>	Finance Act. No. 38 of 1971 (i) Section 11 (b)  (ii) Section 13 (6)	A sum fo Rs. 140,000,00 had been invested in Treasury Bonds without the requisite approval.  A copy of the Draft Annual Report of the Commission for the year 2002 had not been rendered to the audit along with Financial Statements.	Money which has been kept aside for utilization in replacement of Fixed Assets was invested in Treasury Bonds instead of keeping idle. Draft Annual Report will be submitted to the audit in due course before sending for printing.
<b>b)</b>	Inland Revenue (Amendment) Act No. 24 of 1997 and Public Finance Circular No. PF/PE 6	The Commission had failed to recover the PAYE Tax due from its officers liable to that tax for the period from 1997 to 2000 and the bank and remitted a sum of Rs. 1,434,342 in respect of the above tax to the Inland Revenue Department and had debited the above amount to the Current Account of the Commission. Hence, the Commission had paid the above tax on behalf of its officers contrary to the provisions in the Inland Revenue (Amendment) Act and circular under reference.	The Commission has offered a Tax free salary for its employees at the time of advertising for employment in the Commission and recruitment has been on that promise. Even though the Commission realized that the PAYE Tax cannot be incurred by the Commission subsequently, there was no remedy other then incurring the cost of PAYE Tax by the Commission. This was referred to the General Treasury with a view to obtain a Tax exemption, but not granted.
<b>c)</b>	Management Services Circular No.14 of 3 <sup>rd</sup> July 2002.	Twenty eight employees had been recruited on contract basis by the Commission in September 2002 in contravention of the previous in the Management circular referred to.	At present the Commission is involved in reform activities in Telecom industry, where a necessity to have staff to support reforms work was arisen. These persons were recruited on Contract basis. Under S22 © of TRCSL act 1991 & 1996.

### 3.2 Items of Contentious Nature

	Reference to Audit Report	Comments of the Auditor General	Explanation of TRCSL
3.2.1		<p>It was observed in audit that a sum of Rs. 59,743,560 had been due as at 31 March 2002 as license fees from individuals / institutions who had been reserved with Radio Frequencies for commercial use contrary to the provisions in the Sri Lanka Telecommunications Act. No. 25 of 1991.</p> <p>The procedure for licensing and collection of fees does not appear to have been strengthened even after the commissioning of the Frequency Management and Monitory System in April 2001 with financial assistance from the World Bank. The weaknesses in the procedure had resulted in the loss of revenue to maximum utilization of the radio frequencies. It was also observed that the Commission had allowed the use of radio frequencies based on the invoices raised without actually collecting the license fees, which is contrary to the provision of the Act.</p> <p>Such reservations of radio frequencies which remain unutilized by the individuals / institutions result in the blocking the use of those frequencies by potential users as well as the potential revenue sources of the Commission.</p>	<p>The amount due from frequency users as at 31.03.2002 was Rs. 310,894,510.62. A sum of Rs. 54,161,028.00 is due for more than 02 years, which includes Rs. from Government related Institutions. With view to recover the dues from Govt. Institutions, the Director General recently had a meeting with the Deputy Secretary to the Treasury. Recovering the amounts due from Government Institutions further discussion undertaking with GT to examine provisions of to Budget allocations of 2004 for these institutions and transferred to TRCSL deposit account at the Treasury.</p> <p>A team to visit places of frequency users who are in arrears, has been formed. The team is presently conducting visits to places of frequency users. Based on the findings of the team a report will be submitted to the Commission with their recommendations. Inrecoverable arrears will be written of with the approval of the Commission.</p> <p>Although there was a delay in raising invoices for frequency users, with the implementation of the FMMS Project, invoices are issued timely and issuing of license to frequently users are in progress. It is expected to streamline the system gradually and increase the efficiency, effectiveness and economical using of the system.</p>

	<b>Reference to Audit Report</b>	<b>Comments of the Auditor General</b>	<b>Explanation of TRCSL</b>
<b>3.2.2</b>		An officer of the Commission who had been sent on compulsory leave with effect from 15 May 2000 had been paid salaries amounting to Rs. 210,483 and Rs. 9,702 as transport allowances and telephone charges for the period from the effective date of compulsory leave up to 31 December 2000. Although the Commission had decided to interdict the officer with effect from 4 June 2001, action had not been taken for the recovery of the loan of Rs. 122,600 due from that officer from his sureties.	Formal communication has been made to the officer concern about the termination of his service at TRCSL and action to being taken to recover the due amount of Rs. 122,600 from sureties, if the officer fails to settle the due in total.  Copy of the letter for termination of service has been forwarded to the Govt. Audit on 19.06.2003.
<b>3.3</b>		The Treasury Bonds valued at Rs. 140,000,000 purchased by the Commission on 26 September 2002 had not been endorsed in the Commission's Name.	Instructions have been given to endorse those Treasury Bonds, in the name of the Commission immediately, after the advice of your representatives, during the field work of the Audit.
<b>3.4</b>		Identified Losses  Sum of Rs. 250,000 and Rs. 75,000 had been paid in November 2001 by the Commission as an advance and a refundable deposit respectively to lease out a building at Badulla for its provincial office. But, the building had remained unoccupied by the Commission upto October 2002.	This activity has been carried out on a direction of an earlier Hon. Minister in charge of the TRCSL. However, the subsequently appointed Members of the Commission decided that the core activities of the TRCSL i.e. Regulatory Work, should be concentrated upon. Furthermore, the Commission decided that in view of the Reforms in Telecommunications, that it would be necessary for the Professionals in the TRCSL to divert attention to core Regulatory work. Therefore, this concept was terminated. It is proposed to implement this type of activity on FRANCHISE basis at District level (through Public Tender Procedure)  Therefore, TRCSL Professionals will not be (fully) diverted to such activities.

	<b>Reference to Audit Report</b>	<b>Comments of the Auditor General</b>	<b>Explanation of TRCSL</b>
<b>3.5</b>	Uneconomic Transactions	A monthly new paper called “Janasandeshaya” had been published by the Commission during the period March to November 2001 and discontinued thereafter. However, an expenditure of Rs. 3,938,224 had been incurred on account of this newspaper. If this newspaper had been published with the intention of improving the awareness of the activities of the Commission among the public, the reasons for its discontinuance is not clear.	This activity has been carried out on a concept and direction of an earlier Hon. Minister in charge of the TRCSL. This activity has automatically terminated with the change of Hon. Ministers at the last Parliamentary Elections. This activity is not being continued since publishing Newspapers is not a Core Function of a Regulatory Organization. If such media connected work is required, it would be more appropriate to obtain the services of Professionals on Public Tender Basis.
<b>3.6</b>	Corporate Plan	The Commission had not prepared a Corporate Plan covering the year under review.	Corporate plan for the Commission has been prepared with the assistance of consultants and has submitted for the approval of the Commission.
<b>3.7</b>	Budgetary Control	Major variances were observed between the budget and the actuals, thus indicating that the budget had not been made use of as an effective instrument of management control.	Due to the implementation of new programs, in line with the policies of newly appointed Government, specially the 100-day programme, budget allocations were exceeded. However, steps have been taken to prepare more realistic budgets and in line with budget allocations in future.

**TELECOMMUNICATIONS REGULATORY COMMISSION**

**TRIAL BALANCE AS AT 31.12.2002**

<b>Description</b>	<b>A/c Code</b>	<b>Dr.</b>	<b>Cr.</b>
Salaries	PE 1.2	19,210,568.84	
Unutilized Vacation Leave - Allowance	PE 2	964,069.35	
Chairman's Remuneration	PE 3	42,900.98	
Overtime	PE 4	3,374,990.99	
15% E.P.F.	PE 5.1	2,300,081.17	
3% E.T.F.	PE 6.1	464,266.33	
PAYE Tax	PE 7	53,931.12	
Housing Loan Interest	PE 8.3	855,985.02	
Transport Allowance	PE 9-A	4,187,139.22	
House Rent Allowance	PE 9-B	1,696,661.77	
Other Allowances	PE 9-C	3,688,893.06	
25% Commission Contribution for Pension	PE 10	554,488.87	
Travel Concession - Rail	OP 1	5,643.00	
Bungalow Telephone	OP 2-1.6	479,896.67	
Uniform	OP 3	99,720.00	
Welfare	OP 4.1	1,162,932.50	
Library Books	OP 5	458,409.63	
Training Local	OP 6.1	1,120,013.88	
Subscription Staff	OP 8	155,272.03	
Electricity	OC 1.1	3,798,597.98	
Water	OC 2	500,373.00	
Janitorial Services	OC 3	709,549.18	
Security Services	OC 4.1	3,789,151.97	
Transport	OC 5	24,929.95	
Rates and Taxes	OC 6	123,200.00	
Misc - Operating Cost	OC 7.1	492,679.53	
Internet Charges	OC 8.1	295,383.56	
Vehicle Hiring Charges	OC 9	3,200.00	
Legal Expenses	OC 10	241,725.00	
Rentals for Leased Premises	OC 11	1,246,351.00	
Office Equipment - R & M	RM 1.1	713,290.43	
Technical Equipment - R & M	RM 2	0.00	
Elevators - R & M	RM 3	103,508.34	
Generator - R & M	RM 4	3,033.50	
Vehicle - R & M	RM 5.5	3,706,395.18	
Building & Structure - R & M	RM 6	503,074.38	
Misc - R & M	RM 8	196,518.56	
Printing & Stationery	PS 1.2	1,715,031.37	
Fuel	PS 2.4	2,852,200.90	
Electrical Goods	PS 4	36,605.00	
Postage	PS 5	203,138.50	
Telephone, Fax & PABX	PS 6.4	4,165,308.40	
Insurance	PS 7	5,284,462.13	
Bank Charges	PS 8	536,494.20	
Misc - Purchase & Supplies	PS 9.1	264,012.49	
Subsistence & Travelling - Local	OT 1	575,717.85	
Travelling - Foreign	OT 2.2	136,840.06	
Library Annual Subscription	SC 1	90,609.00	
ITU - Annual Subscription	SC 2	9,700,909.00	
APT - Annual Subscription	SC 4	715,986.00	

**TELECOMMUNICATIONS REGULATORY COMMISSION**

**TRIAL BALANCE AS AT 31.12.2002**

Description	A/c Code	Dr.	Cr.
Misc. Annual Subscription	SC 5	7,362.00	
Regulatory Advertising	SC 6	219,997.42	
Pay Phone Subsidy	SC 7	400,548.57	
Public Awareness Programme	SC 8.1	9,017,739.12	
Mis. Regulatory Exp.	SC 9	1,465,626.00	
Subsidy for Telecenters	SC 10	2,507,207.06	
Rural Telecom Expansion	SC 12	32,488.00	
Provincial TRC Offices	SC 13	0.00	
Circuit Bunglow Rent	SC 14	0.00	
Participating in Regulatory Affairs Works	SC 15.1	10,496,271.44	
Training Centre - Beruwala	SC 16	4,149,681.34	
Telecentre - Katawela Landewela	SC 17	1,187,880.55	
Telecentre - Wineethagama	SC 18	1,553,725.82	
Telecentre - Sorabora	SC 19	1,008,588.64	
Telecentre - Galagedara	SC 20	146,604.23	
Telecentre - Kahataruppa	SC 21	1,051,620.93	
Telecentre - Degalle	SC 22	1,576,860.40	
Telecentre - Pattiyagedara	SC 23	477,130.46	
Commission Members Fees	AE 1	22,000.00	
Newspapers & Notifications	AE 2	502,952.36	
Entertainment	AE 3	23,300.65	
Misc - Administration	AE 5	376,877.75	
Audit Fees	AE 6	225,000.00	
Consultancy Fees	AE 7	85,000.00	
Seminars & Conference	AE 8	221,856.50	
Gratuity	PN 2	225,040.50	
Depreciation	PN 3	54,358,192.87	
Provision for Bad Debtors	PN 5	11,849,967.00	
System Operator Fees	R-01		113,946,559.95
Cess Fees	R- 02		159,942,563.95
Radio Frequency Fees	R- 03		341,556,650.08
Vendors License	R- 04		1,099,000.00
Amateur Radio License	R- 05		27,825.00
Ship Station License	R- 06		365,000.00
Aircraft Station License	R- 07		222,000.00
Cordless Telephone Fees	R- 09		815,760.00
Examination Fees	R- 10		27,631.00
Upfront Fees	R- 11		0.00
Rental Income - SLT	R- 12		1,521.00
Other Income	R- 13		103,626.00
Loan Interest	R- 14		966,344.91
Interest Income from Treasury Deposit	R- 15	75,000,000.00	0.00
Sale of used vehicles	R- 16		561,356.25
Interest Income from Fixed Deposit	R- 18		504,006.84
Interest Income from Treasury Bond	R- 19		4,893,798.08

**TELECOMMUNICATIONS REGULATORY COMMISSION**

**TRIAL BALANCE AS AT 31.12.2002**

Description	A/c Code	Dr.	Cr.
Land	PPE 1	136,475,809.75	
Lease Hold Land	PPE 1.1	345,502.00	
Building - HO	PPE 2	102,558,622.61	
Building - Old - Kadirana	PPE 2.1	3,500,000.00	
Building - FMMS - Kadirana	PPE 2.2	4,845,756.25	
Building - FMMS - Yakkala	PPE 2.3	255,036.33	
Building - FMMS - Bandaragama	PPE 2.4	426,008.13	
Building - FMMS - Hantana	PPE 2.5	1,985,966.72	
Air Condition	PPE 3	6,498,628.19	
Vehicle	PPE 4	42,323,503.67	
Elevators	PPE 5	4,683,848.00	
Generators	PPE 6	2,665,427.50	
Office Equipment	PPE 7	11,189,366.31	
Mobile Phones	PPE 8	157,501.12	
Office Furniture	PPE 9	3,251,210.10	
Technical Equipment	PPE 10	22,484,620.72	
Computers	PPE 11	7,628,918.46	
FMMS Project Equipment	PPE 12	295,131,396.88	
Mobile Surveillance Vehicles	PPE 12.1	60,441,383.00	
Vedio Unit Equipment	PPE 13	5,039,948.88	
Treasury Deposit	CUA/1.1	2,124,000,000.00	
Treasury Bond	CUA/1.2	140,000,000.00	
Fixed Deposit	CUA/1.3	30,000,000.00	
Debtors - Radio Frequency	CUA/3.1.2	310,894,510.62	
Debtors - Vendor License	CUA/3.2	1,726,184.49	
Debtors - Amateur Radio License	CUA 3.3	2,895.84	
Other Receivables	CUA/3.8	496,205.55	
Save the Nation Contribution Recoverable	CUA 3.8.2	167,160.92	
Interest Receivable on Treasury Bond	CUA/3.9	252,500.00	
Interest Receivable on Treasury Deposit	CUA 3.10	4,234,423.08	
Pre - Payments	CUA 3.11	129,000.00	
Debtors - Operator Fees	CUA/3.13	83,395,473.17	
Debtors - Cess Fees	CUA/3.14	134,236,684.03	
Cash Balance - Bank of Ceylon	CUA 4.1	10,369,670.81	
Cash Balance - Peoples' Bank	CUA 4.2	20,379,583.09	
Petty Cash - H/O	CUA 4.3	8,622.00	
Petty Cash - Kadirana	CUA 4.4	5,000.00	
Advance - Special	CUA/5.1	1,700.00	
Distress Loan	CUA/5.2.1	6,303,909.20	
Festival Advance	CUA/5.3	61,700.00	
Housing Loan	CUA/5.4	10,130,928.00	
Motor Vehicle Loan	CUA/5.5	4,737,886.33	
Motor Cycle Loan	CUA 5.6	2,672,346.62	
Advance	CUA/6.14	209,500.00	
Miscellaneous Advance	CUA 12	0.00	
Construc.of Boundry Wall - Kadirana	WIP 1	2,602,494.71	
Redesigning of Head Office Building	WIP 7	1,415,887.58	
Security Payable	CL/1.1		395,192.90
Janitorial Service Payable	CL/1.2		139,515.00
Electricity Payable	CL/1.3		7,730.66

**TELECOMMUNICATIONS REGULATORY COMMISSION**

**TRIAL BALANCE AS AT 31.12.2002**

Description	A/c Code	Dr.	Cr.
Internet Payable	CL/1.4		77,872.40
Telephone Payable	CL/1.5		355,408.68
Water Payable	CL/1.6		908.60
Bungalow Telephone Payable	CL/1.7		140,733.96
Newspapers & Notification Payable	CL/1.8		0.00
Miscellaneous Payable	CL/1.9		36,936,928.50
With Holding Tax Payable	CL/1.10		2,815.17
Audit Fee Payable	CL/1.11		900,000.00
Lease Rental Payable	CL/1.12		117,000.00
Salaries Control	CL/2.1.9		324,090.23
Salaries Payable	CL/2.2		23,854.55
Medical Insurance Payable	CL/2.3.1		104,846.78
Consultancy Payable	CL/2.4		18,000.00
Travelling & Subsistence Payable	CL/2.5		77,634.00
Overtime Payable	CL/2.6		291,828.12
E.P.F. Payable	CL/2.7.2		122,497.31
E.T.F. Payable	CL/2.8.2		14,699.68
Staff Welfare Payable	CL/2.10		27,577.50
All Deduction	CL/2.11		9,041.00
25% Comm. Contri. for Pension Payable	CL/2.13		0.00
2/3 Interest Payable	CL/2.14		38,887.88
Refundable Deposit	CL 3		116,905.00
Revenue Received in Advance	CL/4.3		203,909,963.97
VAT / G.S.T. Control Account	CL 6.2	15,353,359.56	0.00
Retention	CL 7		396,816.99
FMMS Equipment Retention	CL 8		0.00
Government Contribution	CED 1		208,108,404.22
Net Surplus	CED 2		2,245,682,780.78
Adjustments in respect of previous years	CED/2A		0.00
Dep. Provision - Buildings	CED 4.1		28,139,234.79
Dep. Provision - Air Condition	CED 4.2		5,659,840.42
Dep. Provision - Vehicle	CED 4.3		22,974,828.73
Dep. Provision - Elevators	CED 4.4		4,683,848.00
Dep. Provision - Generators	CED 4.5		2,061,804.50
Dep. Provision - Office Equip.	CED 4.6		9,536,568.96
Dep. Provision - Office Telephone	CED 4.7		32,627.81
Dep. Provision - Office Furniture & Fittings	CED 4.8		1,609,857.98
Dep. Provision - Technical Equipment	CED 4.9		20,709,397.26
Gratuity Provision	CED 4.10		2,039,045.00
Provision for Bad Debtors	CED 4.11		55,186,966.00
Dep. Provision - Computers	CED 4.12		5,144,588.05
Dep.Provision - Building Kadirana	CED 4.13		525,000.00
Dep. Provision - FMMS - Kadirana	CED 4.14		726,863.43
Dep. Provision - FMMS - Yakkala	CED 4.15		38,255.46
Dep. Provision - FMMS - Bandaragama	CED 4.16		63,901.25
Dep. Provision - FMMS - Hantana	CED 4.17		198,596.68
Dep. Provision - Video Unit Equipment	CED 4.18		2,519,974.44
Dep. Provision - FMMS Project Equipment	CED 4.19		59,026,279.39
Dep. Provision - Mobile Surveillance Vehicles	CED 4.20		15,110,345.76
UNDP	CED 5		19,533,906.00
World Bank Credit	CED 6		298,572,433.87
		<u>3,877,469,740.72</u>	<u>3,877,469,740.72</u>

**TELECOMMUNICATIONS REGULATORY COMMISSION**

**TRIAL BALANCE AS AT 31.12.2002**

Description	A/c Code	Dr.	Cr.
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(28,546,191.31)

**TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA**  
**BALANCE SHEET AS AT DECEMBER 31, 2002**  
*(Expressed in Sri Lanka Rupees)*

	<u>NOTES</u>		<u>31.12.2001</u>
<b>EMPLOYMENT OF CAPITAL</b>			
PROPERTY, PLANT & EQUIPMENT	2	533,126,641.71	584,893,679
WORK IN PROGRESS	3	4,018,382.29	1,143,606
		<u>537,145,024.00</u>	<u>586,037,285</u>
<b>INVESTMENTS</b>	4	2,294,000,000.00	1,824,000,000
<b>CURRENT ASSETS</b>			
Accounts receivable	5	475,564,987.70	242,565,342
Distress Loan		6,303,909.20	6,819,434
Pre Payments		129,000.00	114,000
Special advances		1,700.00	35,400
Festival advances		61,700.00	80,400
Motor Vehicle Loans		4,737,886.33	3,209,801
Housing Loans		10,130,928.00	9,111,931
Motor Cycle Loans		2,672,346.62	1,969,243
Purchase Advance		209,500.00	104,300
Advance for Computers		0.00	1,679,726
Save the Nation Contribution Recoverable		167,160.92	167,161
VAT Paid in Advance		15,353,359.56	12,384,919
Interest Receivable on Treasury Bond		4,234,423.08	75,000,000
Interest Receivable on Fixed Deposits		252,500.00	0
Cash at bank	6	30,749,253.90	109,548,625
Cash in hand		13,622.00	23,036
		<u>550,582,277.31</u>	<u>462,813,318</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	7	40,523,879.91	45,441,664
Revenue Received in Advance		203,909,963.97	53,620,351
Refundable Deposit		116,905.00	77,060
Provision for Gratuity		2,039,045.00	1,814,005
		<u>246,589,793.88</u>	<u>100,953,079</u>
<b>NET CURRENT ASSETS</b>		<u>303,992,483.43</u>	<u>361,860,240</u>
		<u>3,135,137,507.43</u>	<u>2,771,897,525</u>

**TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA**  
**BALANCE SHEET AS AT DECEMBER 31, 2002 - Contd**  
*(Expressed in Sri Lanka Rupees)*

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**REPRESENTED BY**

Government Contribution via		
- World Bank Credit Agreement	298,572,433.87	298,572,434
- United Nations Development Program	19,533,906.00	19,533,906
Other Government Contributions	<u>208,108,404.22</u>	<u>208,108,404</u>
	526,214,744.09	526,214,744
ADD:		
Accumulated Surplus	<u>2,608,922,763.34</u>	<u>2,245,682,781</u>
	<u><u>3,135,137,507.43</u></u>	<u><u>2,771,897,525</u></u>

.....  
**Kumar Abeysinghe**  
*Chairman, Telecommunications Regulatory  
Commission of Sri Lanka*

.....  
**T.L.B. Hurulle**  
*Director General of Telecommunications*

.....  
**R.C.Ratnayake**  
*Deputy Director (Finance)*

**TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA**  
**INCOME AND EXPENDITURE ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**  
*(Expressed in Sri Lanka Rupees)*

	<u>NOTES</u>	<u>31.12.2001</u>
<b>INCOME</b>	<b>8</b>	618,002,989.98
Less - Regulatory Expenses	<b>9</b>	<u>(35,291,969.98)</u>
		<b>582,711,020.00</b>
<b>LESS-</b>		
<b>OTHER EXPENDITURES</b>		
Administration & Establishment expenses	<b>10</b>	133,889,408.93
Repairs & Maintenance expenses	<b>11</b>	5,225,820.39
Finance & Other Expenses	<b>12</b>	536,494.20
Provision For Bad Debtors		<u>11,849,967.00</u>
		<u>151,501,690.52</u>
<i>Income over expenditure for the period</i>		<b>431,209,329.48</b>
Sundry Income	<b>8A</b>	<u>(67,969,346.92)</u>
<i>Total Income over expenditure for the period</i>		<b>363,239,982.56</b>
<b>ADD:</b>		
Profit B/F		2,245,682,780.78
Add/(Less) - Adj.in Respect of Previous Years		0.00
		<u>2,245,682,780.78</u>
<b>Accumulated Surplus as at 31/12/2002</b>		<u><b>2,608,922,763.34</b></u>
		<u><b>1,908,521,481</b></u>
		<u><b>20,901,299</b></u>
		<u><b>1,887,620,181</b></u>
		<u><b>2,245,682,781</b></u>

**TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA**  
**NOTES TO ACCOUNTS - 31.12.2002**  
*(Expressed in Sri Lanka Rupees)*

**2 PROPERTY, PLANT & EQUIPMENT**

COST	BALANCE AS AT 01.01.2002	For the Year 2002		BALANCE AS AT 31.12.2002
		ADDITION	DISPOSALS/ TRANSFERS	
Land	136,475,809.75	0.00	0.00	136,475,809.75
Lease Hold Land	345,502.00	0.00	0.00	345,502.00
Building	112,849,302.94	722,087.10	0.00	113,571,390.04
Vehicles	43,421,428.67	0.00	1,097,925.00	42,323,503.67
Air conditioners	6,498,628.19	0.00	0.00	6,498,628.19
Elevators	4,683,848.00	0.00	0.00	4,683,848.00
Generators	2,665,427.50	0.00	0.00	2,665,427.50
Computers	5,949,192.21	1,679,726.25	0.00	7,628,918.46
Other Office equipment	11,071,838.44	117,527.87	0.00	11,189,366.31
Mobile Phones	92,490.01	65,011.11	0.00	157,501.12
Office Furniture	3,131,053.81	120,156.29	0.00	3,251,210.10
Technical Equipment	22,420,620.72	64,000.00	0.00	22,484,620.72
FMMS Project Surveillance Vehicle	60,441,383.00	0.00	0.00	60,441,383.00
FMMS Project Equipment	295,302,805.75	0.00	171,408.87	295,131,396.88
Video Unit Equipment	5,039,948.88	0.00	0.00	5,039,948.88
	<b>710,389,279.87</b>	<b>2,768,508.62</b>	<b>1,269,333.87</b>	<b>711,888,454.62</b>

DEPRECIATION	BALANCE AS AT 01.01.2002	For the Year 2002		BALANCE AS AT 31.12.2002
		ADDITIONS	DISPOSALS/ TRANSFERS	
Buildings	24,013,282.10	5,678,569.51	0.00	29,691,851.61
Vehicles	19,034,547.90	5,032,262.08	1,091,981.25	22,974,828.73
Air conditioners	5,044,277.60	615,562.82	0.00	5,659,840.42
Elevators	4,437,653.20	246,194.80	0.00	4,683,848.00
Generators	1,795,261.75	266,542.75	0.00	2,061,804.50
Computers	3,873,048.76	1,271,539.29	0.00	5,144,588.05
Other Office equipment	9,159,826.33	376,742.63	0.00	9,536,568.96
Mobile Phones	16,877.70	15,750.11	0.00	32,627.81
Office Furniture	1,314,450.07	295,407.91	0.00	1,609,857.98
Technical Equipment	18,460,934.56	2,248,462.70	0.00	20,709,397.26
FMMS Project Surveillance Vehicle	7,555,172.88	7,555,172.88	0.00	15,110,345.76
FMMS Project Equipment	29,530,280.58	29,513,139.69	17,140.88	59,026,279.39
Video Unit Equipment	1,259,987.22	1,259,987.22	0.00	2,519,974.44
	<b>125,495,600.65</b>	<b>54,375,334.39</b>	<b>1,109,122.13</b>	<b>178,761,812.91</b>

**NET BOOK VALUE**

**584,893,679.22**

**533,126,641.71**

**Notes:**

*Value of Land of Rs. 136,475,809.75 includes Rs. 45,000,000 for the Land situated in Kadirana, Negombo. Extent of the Land is 112 Acres Rood 01 and P 10.5. Approximately a 50% of the extent of the land has been acquired by the Divisional Secretary of Katana, but the effect of the change of the value due to the above has not yet been*

*incorporated in accounts.*

**TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA**  
**NOTES TO ACCOUNTS - 31.12.2002**  
*(Expressed in Sri Lanka Rupees)*

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**WORK IN PROGRESS**

3

	BALANCE AS AT 01.01.2002	For the Year 2002		BALANCE AS AT 31.12.2002
		ADDITION	(TRANSFERS)	
Construction of Boundry Wall- Kadirana	0.00	2,602,494.71	0.00	2,602,494.71
Construction of FMMS Project	118,119.32	0.00	118,119.32	0.00
Desingning of Head Office Renovation	1,025,486.58	390,401.00	0.00	1,415,887.58
	<b>1,143,605.90</b>	<b>2,992,895.71</b>	<b>118,119.32</b>	<b>4,018,382.29</b>

TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA  
NOTES TO ACCOUNTS - 31.12.2002  
(Continued)

	2002	2001
<b>4 INVESTMENTS</b>	<b>2,150,000,000.00</b>	<b>1,820,000.00</b>
Transect Deposits	160,000,000.00	0
Fixed Deposits	1,990,000,000.00	1,820,000.00
	<b>2,150,000,000.00</b>	<b>1,820,000.00</b>

	2002	2001
<b>5 RECEIVABLES</b>	<b>1,111,111.11</b>	<b>1,111,111.11</b>
Radio Frequency Fee	314,894,143.62	127,979,881
Vendor Account	1,726,164.49	1,192,924
Operator Fee	81,395,473.17	61,392,249
Call Fee	124,764,643.61	97,264,790
Arbitration Fee	2,839.54	2,444
	<b>535,815,954.43</b>	<b>388,869,888</b>
Less - Provision for Bad Debts	(424,704,843.32)	(187,758,777)
Other Receivables	49,201.35	69,777
	<b>111,111,111.11</b>	<b>201,111,111.11</b>

	2002	2001
<b>6 CASH AT BANK</b>	<b>1,111,111.11</b>	<b>1,111,111.11</b>
People's Bank - Northpoint Branch, A/C 101-624000-10-0	50,000,000.00	10
Over 1 Year Below 2 Years	5,215,588.00	1
Below 1 Year	555,795,522.00	0
	<b>561,011,110.00</b>	<b>111,111.11</b>

	2002	2001
<b>7 ACCOUNTS PAYABLE</b>	<b>1,111,111.11</b>	<b>1,111,111.11</b>
Telephone - Village	354,488.68	377,211
- Ringling	493,733.56	129,488
Admission Contract (Contract Employees)	24,098.23	1,000
Advances Payable	21,854.53	4,720
Electricity	7,794.68	225,946
Water	668.00	49,890
Automated Services	178,110.00	95,211
Security Services	395,102.50	328,219
Outsourcing	291,228.12	239,446
E.T.F	122,497.11	0
E.T.F	14,699.68	0
Contingency	18,000.00	1,928
Interest	77,872.46	17,120
	<b>1,111,111.11</b>	<b>1,111,111.11</b>

TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA  
NOTES TO ACCOUNTS - 31.12.2002  
(Continued)

	2002	2001
<b>8 INCOME</b>	<b>1,111,111.11</b>	<b>1,111,111.11</b>
Insurance	194,846.78	28,885
Staff Welfare	27,577.50	13,990
Newspaper & Publications	0.00	109,815
Wash Holding Fee	2,815.17	38,897
Anti-Fire	900,000.00	675,000
Loss - Rental	17,000.00	0
Traveling & Subsistence	77,014.00	47,276
Contribution to Pension Fund	0.00	149,357
Education	590,261.00	189,109
2 1/2 Interest	38,887.38	25,182
V.A. Interest	32,499,214.00	5,265,745
EMMS Equipment Rotation	0.00	31,174,715
Miscellaneous (Schedule 1)	4,147,918.18	4,312,377
All Schedules	6,241.00	0
	<b>40,521,979.16</b>	<b>45,441,644</b>

	2002	2001
<b>9 EXPENSES</b>	<b>1,111,111.11</b>	<b>1,111,111.11</b>
Telephone Operator License	111,946,939.95	79,494,939
Call Fee	159,842,583.94	96,212,221
Radio Frequency Fee	341,556,600.00	395,952,200
Vendor Account	1,699,000.00	1,692,920
Ship Station License	27,000.00	29,100
Alcatel Station License	365,000.00	425,000
Cellular Telephone Fee	222,000.00	297,000
Uplink Fee	812,500.00	1,294,200
Uplink Fee	0.00	0
Examination Fee	27,611.00	8,572
	<b>1,111,111.11</b>	<b>1,111,111.11</b>

	2002	2001
<b>10 RECEIVABLES</b>	<b>1,111,111.11</b>	<b>1,111,111.11</b>
Interest Income from Staff Loan	964,344.95	654,764
Interest Income from Treasury Deposits	(71,000,000.00)	25,000,000
Miscellaneous	100,000.00	122,012
Profit on Sale of Two Vehicles	54,136.25	0
Interest Income from Fixed Deposits	564,564.94	0
Interest Income from Treasury Bond	(897,539.00)	0
	<b>111,111.11</b>	<b>111,111.11</b>

Provision for interest will be paid for amounts deposited in the Treasury Deposits Account before the accumulated interest income received for Treasury Deposits was received.

TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA  
NOTES TO ACCOUNTS - 31.12.2002  
(Continued)

	2002	2001
<b>9 Regulatory Expenses</b>	<b>400,546.77</b>	<b>4,000,000</b>
Telephone - Island	219,997.42	0
Public Information Programme	9,897,129.12	1,475,015
Subsidy for Telephones	9,909,618.00	97,342
Postal - Telecom Expenses	4,182,897.84	51,267
Class Registration Fee	0.00	290,000
Participation in Regulatory Affairs Works	19,466,214.44	0
Miscellaneous (Schedule 2)	482,222.00	20,000
	<b>35,291,949.78</b>	<b>18,981,624</b>

**10 ADMINISTRATION & ESTABLISHMENT EXPENSES**

	2002	2001
Subsides	19,216,568.84	19,363,686
Transport Allowance	4,187,129.22	4,089,992
House Rent Allowance	1,698,643.77	1,713,149
Other Allowances	1,698,931.06	2,498,662
Outsourcing	1,374,909.99	2,722,242
Charter's Remuneration	42,000.00	89,984
Unclaimed National Loans	564,488.68	928,867
Commission & Contribution to Pension	554,488.67	638,317
Telephone - Telephone	5,454,000.00	4,608
Telephone - Telephone	479,866.67	661,720
Telephone	99,720.00	289,919
Staff Welfare	1,862,582.20	637,236
Staff Professional Membership Subsidy	102,212.00	187,289
Training Expenses - Local	1,128,613.88	1,069,448
Commission Member - Allowance	22,000.00	34,000
Housing Loan Interest	683,981.02	177,487
E.T.F. (1% Contribution)	2,800,001.17	2,066,367
E.T.F. (1% Contribution)	464,264.33	479,267
PAYE Tax	15,981.12	0
Traveling & Subsistence - Local	475,717.85	688,896
Traveling - Foreign	136,846.00	566,671
Grants	222,600.00	566,671
Electricity	3,796,977.98	3,892,778
Water	199,710.00	388,611
Automated Services	789,249.18	582,263
Security	3,799,219.97	3,263,992
Rates & Taxes	122,200.00	124,127
Library Books	488,000.00	479,642
Printing and Stationery	1,515,931.37	1,513,317
Fuel	2,842,900.00	2,462,228
Electricity Goods	36,405.00	39,872
Postage	305,181.36	127,713
Telephone, Fax and FAX	4,365,388.40	4,711,619

TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA  
NOTES TO ACCOUNTS - 31.12.2002  
(Continued)

**11 INVESTMENT & ESTABLISHMENT EXPENSES (Contd.)**

	2002	2001
Insurance	1,204,862.13	6,688,617
ITIL - Change	295,581.56	159,064
ITIL - Annual Subscriptions	9,790,900.00	0
Misc. Annual Subscriptions	7,262.00	178,261
APF Annual Subscriptions	715,966.00	635,366
Library Annual Subscriptions	96,000.00	192,914
Newspapers & Notifications	982,622.26	1,049,871
Transportation	21,500.00	0
Transport	24,829.99	14,841
Contingency - Rent	81,000.00	298,421
Seminars & Conferences	223,216.50	191,429
Lease Fee	222,000.00	222,000
Legal Expenses	241,721.00	481,442
Rentals for Lease Premises	1,246,211.00	1,292,996
Vehicle Hiring Charges	3,200.00	27,899
Depreciation	54,376,427.87	14,648,619
Advertisement - Miscellaneous	178,177.70	34,843
Purchase & Repair Motor	364,811.40	792,811
Operating Cost - Miscellaneous	492,479.83	238,674
	<b>11,111,111.11</b>	<b>11,111,111.11</b>

**12 REPAIRS & MAINTENANCE EXPENSES**

	2002	2001
Office Equipment Maintenance	712,246.43	762,399
Electric Maintenance	165,584.34	162,222
Contract Maintenance	381.00	37,206
Vehicle Maintenance	2,396,955.18	1,873,914
Building Maintenance	905,601.26	484,280
Technical Equip. Maintenance	0.00	0
Rep. & Maint. Misc	195,518.56	67,472
	<b>5,225,426.77</b>	<b>3,285,571</b>

**13 UNPAID & OTHER EXPENSES**

	2002	2001
Bank Charges	136,494.28	46,847
	<b>136,494.28</b>	<b>46,847</b>

**TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA**  
**SCHEDULES TO ACCOUNTS - 31.12.2002**  
*(Expressed in Sri Lanka Rupees)*

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**1 Miscellaneous Payable**

Lease Hold Land deed charges & Stamp fees payable to NHDA	45,502.00
10% of balance payment for Data Analyser	116,230.00
Final Payment - Construc. of Garage & Canteen Block - Building Department	4,003,472.50
Comm. Member Fee - Mr. L.Perera	1,000.00
- Mr. R.M.K.Ratnayake	1,000.00
50% of balance payment for Stall (INFOTEL Exhibition)	380,500.00
	<u><b>4,547,704.50</b></u>

**2 Miscellaneous Regulatory Expenses**

National Telecom Policy - Consultancy Fee	1,447,526.00
Others	18,100.00
	<u><b>1,465,626.00</b></u>

**TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

*(Expressed in Sri Lanka Rupees)*

**Cash flows from operating activities**

Net profit for the period 363,239,982.56

***Adjustments for***

Depreciation on Property, Plant, and Equipment	54,358,192.87	
Provision for Bad & Doubtful Debtors	11,849,967.00	
Provision for Gratuity	225,040.50	
Interest income from Fixed Deposits	(504,006.84)	
Interest income from Treasury Bills	(4,893,798.08)	
Provision for Interest income from Treasury Deposits	75,000,000.00	
Profit on Sale of Two Vehicles	(561,356.25)	135,474,039.20
<b>Operating Profit before working capital changes</b>		<b>498,714,021.76</b>

***Working Capital Changes***

Increase in Accounts Receivable	(244,849,612.80)	
Decrease in Distress Loans	515,525.00	
Increase in Prepayments	(15,000.00)	
Decrease in Special Advances	33,700.00	
Decrease in Festival Advances	18,700.00	
Increase in Motor Vehicle Loan	(1,528,084.99)	
Increase in Housing Loan	(1,018,997.00)	
Increase in Motor Cycle Loan	(703,103.16)	
Increase in Purchase Advances	(105,200.00)	
Decrease in Advance for Computers	1,679,726.00	
Increase in VAT Paid in Advance	(2,968,440.79)	
Decrease in Interest Receivable on Treasury Deposit	(4,234,423.08)	
Increase in Interest Receivable on Fixed Deposit	(252,500.00)	
Decrease in Accounts Payable	(4,917,783.59)	
Increase in Revenue Received in Advance	150,289,613.31	
Increase in Refundable Deposit	39,845.00	(108,016,036.10)
<b>Net Cash Generated Through Operating Activities</b>		<b>390,697,985.66</b>

**Cash flow from investing activities**

Purchases of Property, Plant and Equipment	(2,536,328.95)	
Treasury Deposits	(470,000,000.00)	
Work in Progress	(2,992,895.71)	
Interest income from Fixed Deposits	561,356.25	
Interest income from Treasury Bills	4,893,798.08	
Proceed from sale of Motor Vehicle	567,300.00	
<b>Net cash used in investing activities</b>		<b>(469,506,770.33)</b>

**TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2002 (Contd.)**  
*(Expressed in Sri Lanka Rupees)*

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***Cash flow from financing activities***

Government Contribution	0.00
World Bank Credit	0.00
<b><i>Net cash used in financing activities</i></b>	<b>0.00</b>

***Net Increase in cash and cash equivalents*** (78,808,784.67)

Cash and cash equivalents at the beginning of the period	109,571,660.57
<b>Cash and cash equivalents at the end of the period</b>	<b>30,762,875.90</b>

**Analysis of cash and cash equivalents**

	<b>31.12.2002</b>	<b>01.01.2002</b>	<b>Change during the period</b>
Cash at Bank	30,749,253.90	109,548,624.53	(78,799,370.63)
Cash in hand	13,622.00	23,036.04	(9,414.04)
	<b>30,762,875.90</b>	<b>109,571,660.57</b>	<b>(78,808,784.67)</b>

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**TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA**  
**NOTES TO ACCOUNTS – 31.12.2002**

**1. ACCOUNTING POLICIES**

**1.1 GENERAL ACCOUNTING POLICIES:**

1.1.1 The Financial Statements of TRCSL are prepared under the historical cost convention in accordance with generally accepted accounting principles and the Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. No adjustment is made for inflationary factors affecting these Accounts.

**1.1.2 Post Balance Sheet Events**

All material events occurring after the Balance Sheet date are considered and where necessary, adjustments are made in the accounts.

**1.1.3 Foreign Currency Conversion**

All foreign currency transactions are converted at the rate of exchange prevailing at the time the transactions were effected. Assets and Liabilities in foreign currencies are translated at the rates of exchange prevailing at the Balance Sheet date. The resulting gains and losses are dealt with in the Income and Expenditure Account.

**1.1.4 Previous year adjustments**

Previous year adjustments are presented in the accounts under the Benchmark Treatment method as stated in Sri Lanka Accounting Standard 10 (Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies).

**1.2 VALUATION OF ASSETS:**

**1.2.1 Accounts Receivable**

Accounts receivables are stated at the amounts that they are estimated to realize. Provision is made in the accounts for bad and doubtful debts.

**1.2.2 Property, Plant and Equipment**

1.2.2.1 The cost of Property, Plant and Equipment is the cost of purchase or construction together with any incidental expenses thereon. The Property, Plant and Equipment are recorded at cost (or valuation) less accumulated depreciation which is provided for on the bases specified in the Note 1.2.2.3 below.

1.2.2.2 Property, Plant and Equipment (PPE) acquired under the International Development Association Credit Agreement have been capitalized.

**1.2.2.3 Depreciation**

Provision for depreciation has been calculated on the cost or valuation of Property, Plant and Equipment in order to write-off such amounts over the estimated useful lives by equal installments as follows:

**TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA**  
**NOTES TO ACCOUNTS – 31.12.2002 (CONTINUED)**

**Estimated Useful Lives of PPE**

Building	Over 20 Years
Furniture & Fittings	Over 10 Years
Office Equipment	Over 10 Years
Computers	Over 04 Years
Motor Vehicles	Over 08 Years
Generators	Over 10 Years
Office Telephones	Over 10 Years
Office Furniture	Over 10 Years
Technical Equipment	Over 10 Years
FMMS Equipment	Over 10 Years
Mobile Surveillance Vehicle	Over 08 Years

Full provision is made in the year of purchase and none in the year of disposal.

When computing depreciation, credit has been taken for Grant Funded Assets in accordance with Sri Lanka Accounting Standard 24.

**1.2.3 Investments**

Investments are stated at cost of acquisition. Provision is made for diminution in value of investments only if they are expected to be permanent.

**1.3 LIABILITIES AND PROVISIONS:**

All material liabilities as at the balance sheet date have been included and adequate provision has been made for liabilities which are known to exist but the amount of which cannot be determined accurately.

**1.3.2 Capital Commitment and Contingencies**

Capital expenditure commitments and contingent liabilities as at the date of the balance sheet have been disclosed in the notes to the accounts.

**TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA**  
**NOTES TO ACCOUNTS – 31.12.2002 (CONTINUED)**

**1.3.3 International Development Association**

Funds received under the IDA credit agreement has been accounted according to the Capital Approach as per the Sri Lanka Accounting Standards 24 (SLAS – 24) – Accounting for Government Grants and Government Assistance.

**1.4 INCOME AND EXPENDITURE:**

Income is principally recognized on an accrual basis in terms of Sri Lanka Accounting Standard No. 29.

**1.4.1 Cess and Operator Fees are charged as a percentage of Operators' Turnover and additional investment respectively.**

As the financial year ending dates of operators and the Commission are not identical, Cess and Operator fees have been identified in accounts based on estimations arrived in accordance with the available recent information.

**1.4.2 Government Grants**

Grants related to income are recognized in the Income and Expenditure Account in the year in which it is receivable.