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The Eighth Parliament of
The Democratic Socialist Republic of Sri Lanka
(Third Session)

Third Report of the Committee on Public Enterprises
(1st March 2018 to 26th October 2018)

Presented on 23rd day of October 2019 by

Hon. Sunil Handunneththi
Chairman of the Committee on Public Enterprises

Ordered to be printed by Parliament of Sri Lanka on 23rd day of October 2019
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

Committee on Public Enterprises

Eighth Parliament (Third Session)

As per the Speaker’s Announcement made in Parliament on 11th January 2019, the following 16 Members of Parliament were appointed to the Committee on Public Enterprises for the Third Session of the Eighth Parliament by the Committee of Selection on 10th January 2019 in terms of Standing Order 120 (1):

1. Hon. Sunil Handunneththi, M.P. (Chairman)
2. Hon. Rauff Hakeem, M.P.
3. Hon. Ravindra Samaraweera, M.P.
4. Hon. Sujeewa Senasinghe
5. Hon. (Dr.) Harsha de Silva, M.P.
7. Hon. Wasantha Aluvihare, M.P.
8. Hon. Ranjan Ramanayake, M.P.
9. Hon. Ashok Abeysinghe, M.P.
11. Hon. Lakshman Senevirathna, M.P.
12. Hon. Chandrasiri Gajadheera, M.P.
13. Hon. Mahindananda Aluthgamage, M.P.
15. Hon. Jayantha Samaraweera, M.P.
16. Hon. Mavai S. Senadhiraja, M.P.
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

Committee on Public Enterprises

Eighth Parliament (Third Session)

This report presents facts unveiled regarding institutions examined from 1\textsuperscript{st} March 2018 to 26\textsuperscript{th} October 2018 at the Committee on Public Enterprises within the Second Session of the Eighth Parliament and the Committee on Public Enterprises of the Second Session of the Eighth Parliament, Chaired by Hon. Sunil Handunnetthi, consisted of the following 26 Hon. Members of Parliament.

1. Hon. Sunil Handunnetthi, M.P., (Chairman)
2. Hon. Rauff Hakeem, M.P.,
3. Hon. Ravindra Samaraweera, M.P.,
4. Hon. Lakshman Senevirathne, M.P.,
5. Hon. Sujeewa Senasinghe, M.P.,
6. Hon. Wasantha Aluvihare, M.P.,
7. Hon. (Dr.) Harsha de Silva, M.P.,
8. Hon. Ajith P. Perera, M.P.,
9. Hon. Lasantha Alagiyawanna, M.P.,
10. Hon. Ranjan Ramanayake, M.P.,
11. Hon. Ashok Abeysinghe, M.P.,
12. Hon. Anura Priyadarshana Yapa, M.P.,
13. Hon. Anura Dissanayake, M.P.,
14. Hon. Chandrasiri Gajadheera, M.P.,
15. Hon. Mahindananda Aluthgamage, M.P.,
16. Hon. Dayasiri Jayasekara, M.P.,
17. Hon. Bimal Ratnayake, M.P.,
18. Hon. Mavai S. Senadhiraja, M.P.,
19. Hon. Abdullah Mahroof, M.P.,
20. Hon. Jayantha Samaraweera, M.P.,
21. Hon. S. Sritharan, M.P.,
22. Hon. M.A. Sumanthiran, M.P.,
23. Hon. Hector Appuhamy, M.P.,
24. Hon. (Dr.) Nalinda Jayatissa, M.P.,
25. Hon. Harshana Rajakaruna, M.P.,
26. Hon. Gnanamuththu Srineshan, M.P.,
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Chairman’s Note

In the recent times, people have had as much enthusiasm towards the work of the Committee on Public Enterprises as they had towards the business of Parliament. The opening of the proceedings of this Committee to the media with effect from 9th August 2019 could be termed an expansion of opportunities available to citizens to intervene in facing the challenges that emerge in the economic, political and cultural spheres in modern Sri Lanka.

Under the new conditions, a greater attention has emerged within the society regarding the powers of the Committee on Public Enterprises and steps on the part of Parliament to bring to books those persons responsible for misacts based on the observations and recommendations of the Committee has become a timely need.

As people are the true shareholders of public enterprises, the right to ascertain that public enterprises invest money so that people get a fair share of its benefits rests with them while it reinforces the democratic foundation of our country. As such, this report has been compiled including facts pertaining to 23 institutions subjected to examination by the Committee on Public Enterprises during the period from 1st March 2018 to 26th October 2018 out of about 450 public enterprises subjected to scrutiny by this Committee.

Some distinct institutions had to be summoned several times before the Committee, among which are the Roads Development Authority and the National Transport Commission. This report is not a comprehensive one on the institutions which have been subjected to scrutiny but one which summarizes the facts submitted before the Committee.

I respectfully remember the support given to the Committee on Public Enterprises by the Auditor General and his staff by subjecting the accounts of the institutions concerned and express my sincere thanks to the Committee staff who contributed in preparing this Report and the translation section who performed translation work.

Sunil Handunneththi
Chairman
Committee on Public Enterprises
Third Session of the Eighth Parliament
Second Report of the Third Session of the
Committee on Public Enterprises

Introduction

It is with great pleasure that the Committee on Public Enterprises presents its Second Report of the Third Session of the Eighth Parliament.

The Auditor General subjects to examination all state-owned Corporations, merchant and other businesses vested in the government by any written law and those companies registered or deemed to have been under the Companies Act No. 7 of 2007 in which the government, or a government company, or a local authority holds more than 50% or more of the shares, including their accounts under the Committee on Public Enterprises.

As such, observations and recommendations pertaining to the following 23 institutions which were subjected to the Committee’s examination during the period from 1st March 2018 to 26th October 2018 have been included in this Report.

Institutions Subjected to Examination by the Committee on Public Enterprises from 1st March 2018 to 26 October 2018 and the Period of Reference for Examination in respect of Each Institution

<table>
<thead>
<tr>
<th>Institution</th>
<th>Date of Examination</th>
<th>Period / Matter of Reference for Examination</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lanka Hospital Corporation plc</td>
<td>22.03.2018</td>
<td>Although the Committee recommended that the account activities of this institution be subjected to the supervision of the Auditor General, the institution did not provide the information necessary for supervision activities.</td>
</tr>
<tr>
<td></td>
<td>04.04.2018</td>
<td></td>
</tr>
<tr>
<td>2. Buddhist and Pali University of Sri Lanka</td>
<td>23.03.2018</td>
<td>Reports of the Auditor General for the years 2012,</td>
</tr>
<tr>
<td>No.</td>
<td>Organization</td>
<td>Date(s)</td>
</tr>
<tr>
<td>-----</td>
<td>---------------------------------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>4.</td>
<td>State Pharmaceuticals Corporation of Sri Lanka</td>
<td>06.04.2018</td>
</tr>
<tr>
<td>5.</td>
<td>People’s Bank</td>
<td>17.07.2018</td>
</tr>
<tr>
<td>9.</td>
<td>Public Utilities Commission and Ceylon Electricity Board</td>
<td>07.08.2018</td>
</tr>
<tr>
<td>10.</td>
<td>National Water Supply and Drainage Board</td>
<td>08.08.2018</td>
</tr>
<tr>
<td>No.</td>
<td>Organization</td>
<td>Date</td>
</tr>
<tr>
<td>-----</td>
<td>------------------------------------------</td>
<td>---------</td>
</tr>
<tr>
<td>11.</td>
<td>Roads Development Authority</td>
<td>09.08.2018</td>
</tr>
<tr>
<td></td>
<td></td>
<td>18.09.2018</td>
</tr>
<tr>
<td>12.</td>
<td>State Engineering Corporation</td>
<td>10.08.2018</td>
</tr>
<tr>
<td>13.</td>
<td>Land Reform Commission</td>
<td>23.08.2018</td>
</tr>
<tr>
<td>15.</td>
<td>Postgraduate Institute of Archaeology</td>
<td>05.09.2018</td>
</tr>
<tr>
<td></td>
<td>Organization</td>
<td>Date</td>
</tr>
<tr>
<td>---</td>
<td>---------------------------------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>20.</td>
<td>Sri Lanka Football Federation</td>
<td>09.10.2018</td>
</tr>
</tbody>
</table>
LANKA HOSPITAL CORPORATION PLC

(Ministry of National Policies and Economic Affairs)

Date of Examination: 22nd March 2018
04th April 2018

When Lanka Hospital Corporation PLC was summoned before the Committee on 20.06.2017, the Committee recommended that the activities of preparing the accounts of that institution be brought under the supervision of the Auditor General. The Auditor General, by his letter dated 28.02.2018, informed the Committee that the institution has avoided providing certain reports, information and documents relevant for doing so to the Auditor General. As such, the Lanka Hospital Corporation PLC was summoned before the Committee to look into it.

Matters Discussed

01. Non Attendance of the Chairman of the Institution at the Committee

The Chairman of the institution did not attend the Meeting of the Committee held today, 22.03.2018, without giving notice.

Recommendations

i. To summon the Lanka Hospital Corporation PLC before the Committee again on 04.04.2018

When the institution had appeared before the Committee on 22.03.2018, the Committee decided to summon it before the Committee on Public Enterprises with the presence of the Chairman of the institution on 04.04.2018. The following matters were subjected to discussion at this meeting.

01. Auditing Activities of the Institution

i. The Companies with government shareholding of 50% or above are subject to auditing by the Auditor General in terms of the 19th Amendment to the Constitution. On this basis, the Lanka Hospital Corporation PLC functioning under the Sri Lanka Insurance Corporation, which has a 54% state ownership, is also subject to auditing of the Auditor General. At the same time, although the solvent certificate should be obtained from the Auditor General if auditing is carried out through an external audit firm, the Committee found out that the institution had not obtained such certificate from the...
Auditor General when having auditing activities carried out through a private firm.

ii. At the same time, the Auditor General may inspect any document, whether or not price sensitive, in terms of Article 154 of the Constitution. The Secretary to the Ministry pointed out that if Lanka Hospital Corporation PLC had confidential information in their possession, they could furnish such information under confidential cover.

iii. Furthermore, the Committee pointed out that the need for the confidentiality could be discussed with the Auditor General, who has been sanctioned to safeguard the confidentiality of such facts, and it is not suitable to entertain suspicions about such an officer.

Recommendations

i. Giving support to the Auditor General by providing the information necessary to conduct the auditing activities of the institution

ii. Discuss the need for confidentiality of the information provided with the staff of the Auditor General and acting with cooperation

iii. Secretary to the Ministry to bear the responsibility of coordinating in this regard and informing the Board of Directors

iv. To have the Attorney General to solve any legal issue that exists and informing the Parliament about it.

v. To appoint a representative of the Treasury to the Board of Directors.

Reporting Present Status and Progress

As a representative of the Treasury is present in the Board of Directors of the Sri Lanka Insurance Corporation, which is the mother company of the institution, it has been informed as per the instructions of the Chairman of the Committee on Public Enterprises that it is suitable to appoint a Ministry official until a Treasury official is appointed.
Buddhist and Pali University of Sri Lanka

(Ministry of Education)

Date of Examination: 23rd March 2018

Note

The Committee decided to summon each University belonging to the University system of Sri Lanka separately and discuss the problems prevailing in each of them in order to identify such problems and submit to Parliament a report including measures and recommendations that should be adopted in general with regard to the problems so identified for the advancement of the whole University system.

Therefore, the information pertaining to the examination conducted by the Committee on Public Enterprises at its Meeting held on 23rd March 2018 by summoning the Buddhist and Pali University of Sri Lanka will be presented by the Committee through the special report intended to be produced in due course.
Matters Discussed

01. Weaknesses prevailing in the activities check whether fuel dispensing machines dispense fuel in accurate quantities (caliber) at fuel filling stations.

- It was revealed that adequate action had not been taken to implement the recommendation including the report of the sample test conducted by the Auditor General’s Department given to the Chairman of the Public Utilities Commission of Sri Lanka by the Committee at its Meeting held on 25th January 2017 to take follow-up measures so that all the institutions pertaining to sale of fuel can be brought.

Recommendations

- The Secretary to the Ministry of Petroleum Resources Development and the Chairman of the Ceylon Petroleum Corporation to look into the matter and report the present status.

Reporting on Present Status and Progress

- The Secretary to the Ministry of Petroleum Resources Development has, by his letter dated 27.08.2018 and bearing reference: MPRD/IA/2/6/ (ii), informed the Committee that a Bill has already been drafted to vest the regulatory activities such as inspecting fuel filling stations in the Public Utilities Commission of Sri Lanka.
- The letter referred to above has also reported that, until such vesting, groups comprising officers from the Public Utilities Commission of Sri Lanka, Department of Weights and Measures and the Ministry to inspect the fuel filling stations of the Ceylon Petroleum Corporation.

02. Procurement Agreement Activities

- The Committee enquired about the procurement agreement affairs relating to procurements for imports of the institution and relating to the following special issues:
i. 43 of the 89 agreements entered into in the year 2017 had been those following the urgent procurement method contravening the Cabinet Paper No. 12/0295/510/003/TRB dated 22nd March 2012 instead of term agreements.

ii. 11 urgent procurements had been conducted while term agreements had still remained and when comparing the margin of the term agreements in respect of the relevant products, a loss of US $ 1,597,012.65 had been caused approximately.

Recommendations

i. Referring a report to the Committee containing the following facts together with the documents on which they are based

ii. The reasons for acting in this manner

iii. Reasons to justify such action

iv. Profit/loss/disadvantage caused

v. If a disadvantage was to occur, how it was avoided.

Reporting Present Status and Progress

- The Secretary to the Ministry of Petroleum Resources Development has submitted a full report on this matter by his letter No. MPRD/ADM/12/1/50 dated 15th May 2018 and the following facts by his letter dated 27th August 2018, by his letter No.MPRD/IA/2/6/ (II) dated 27th August 2018:

i. In the absence of term agreements, purchasing of fuel according to the need is carried out through single cargo purchase, and single cargo purchasing is carried out according to the recommendations of the Stock Survey Board, which meets on weekly basis, following a proper procurement process.

The explanation presented justifying the need for it is in Annexure 1

ii. A brief introduction on the 03 modes of procurement (Term Tenders, Single Cargo Tenders and Spot Cargo Purchases) through which procurement process occurs, as given in the above-mentioned report has been presented as Annexure 2

iii. The report explaining the reasons for carrying out 11 urgent purchases in the year 2017 is submitted as Annexure 3.

iv. The report explaining the loss caused to the institution and facts relating to it is cited as Annexure 4.

v. The extracts from the above-mentioned report submitted explaining about cancelling the agreements with suppliers who did not act according to the agreements and registering new suppliers as measures
to overcome the financial loss caused to the institution are contained in Annexure 5.

03. **Absence of Proper Supply Agreements**

The Committee enquired as to why the Ceylon Petroleum Corporation had not entered into agreements with Ceylon Electricity Board, SriLankan Airlines, Laugfs Gas and Litro Gas when dealing with supplies.

**Reporting Present Status and Progress**

- The Secretary to the Ministry of Petroleum Resources Development has by his letter No.MPRD/IA/2/6/ (ii) dated 26.10.2018, reported to the Committee in this regard as follows:
  
  i. **Agreement Between the Ceylon Electricity Board and the Ceylon Petroleum Corporation**
  
  The Ministry has drafted this agreement and presented it to the Ceylon Electricity Board.

  ii. **Agreements Between the SriLankan Airlines and the Ceylon Petroleum Corporation**
  
  The Ministry of Public Enterprises and Kandy City Development has submitted the Cabinet Memorandum No. 18/1949/810/026 dated 21st August 2018 under the heading ‘Agreement Between the Ceylon Petroleum Corporation and the Sri Lankan Airlines for the supply of Fuel’. The Cabinet has decided that fuel supply should be conducted as per the agreement which had been prevailing previously until the Parliament proposed agreements are finalized. Annexure 6.
  
  iii. **Ceylon Petroleum Corporation’s Agreement with Litro Gas and Laugfs Gas Lanka**
  
  Draft agreements have been sent to enter into agreements with these institutions.

04. **Recourse to a Private Company for Insurance Purposes**

The Committee enquired about the above-mentioned matter.

The Secretary to the Ministry stated that permission was received to assign insurance activities to a private company until the Cabinet Approval is received as lower rates were offered from a private company and the state owned company which provided the service previously had increased the rates enormously this time.
Recommendations

The Committee directed the Auditor General to check to see whether recourse to a private company is in accordance with the policy of the government and report and directed the Chairman of the Corporation to provide the Auditor General with all the information necessary for this purpose.

Reporting Present Status and Progress

i. As the Secretary to the Ministry of the Petroleum Resources Development had informed by his letter No. MPRD/IA/2/6/ (ii) dated 27.08.2018, the Government Audit Division had been furnished with all the information concerned.

ii. The Cabinet Decision dated 27.06.2018 given regarding this matter has been submitted as Annexure 7.

05. Renovation of Fuel Pipeline from Colombo Port to Kolonnawa Oil Terminal

It was revealed that about 85% of the work of this project has been carried out and 940 meters of pipeline is left to be done including the stretch of 130 meters belonging to Mahawatta Phase IV area, where difficulty in evacuating residents has become an obstacle to the project. It was also unveiled that the matter had been discussed at the relevant Sectoral Oversight Committee.

Recommendations

- The Committee pointed out that the work could be expedited if the government could intervene and give an assurance that the resident who have occupied lands would be provided with houses and informed the Secretary to the Ministry to intervene expeditiously.

06. BOT Agreement, Supply Agreement and Land Lease Agreement between Hyrax Oil Company and Government

i. The Committee queried the reasons for not implementing the aforesaid Agreement.

ii. The Secretary to the Ministry stated that it had been delayed as the Agreement contains clauses that adversely affect the Ceylon Petroleum Corporation and a Cabinet Paper will be submitted after receipt of advice from the Attorney General.
Recommendations

- To report the future measures taken in this regard to the Committee.

Reporting Present Status and Progress

The Secretary to the Ministry of Petroleum Resources Development has stated by his letter No.MPRD/IA/2/6/(ii) dated 27.08.2018 that the Cabinet of Ministers, by its Decision dated 26.06.2018 in this regard, has given instructions to the effect that the Decision of the Cabinet of Ministers given on 02.03.2016 be implemented.

Annexure 8.

07. Disciplinary Inquiry in Respect of Mr. W. Sarath Perera, Former Deputy General Manager - Finance (Acting)

The Committee had on 21/03/2018 informed in writing that the recommendations in the report of the independent inquiry conducted by the Investigation, Research and Operations Division of the Ministry of Public Administration be implemented.

Recommendations

- To report to the Committee the measures that have been taken regarding this matter.

Reporting Present Status and Progress

- The Secretary to the Ministry of Petroleum Resources Development has, by his letter No.MPRD/IA/2/6/(ii) dated 27.08.2018 reported to the Committee on the measures taken with regard to this officer.

08. Other Matters Capturing the Attention of the Committee

i. Kerosene found mixed in diesel being transported from the oil storage in Muthurajawela to Kurunegala in a fuel tanker (Bowser) (bearing Registration No.WP-GP 4935) on 31.12.2017.

ii. Inquiring whether the Operations Manager – Garage recruited as per the advertisement published had completed the necessary qualifications.

iii. Failure to hand over the vehicle bearing Registration No. LY- 3020 which met with a crash and was decided not suitable for use and claim the 14 million rupees which is due as the insurance coverage.
Recommendations

i. To report to the Committee on the steps taken regarding the matters stated in i and ii above.

ii. To look into the steps taken regarding the matter stated in iii above and take action to get the money concerned without delay.

iii. To take steps to solve the problems of the institution through Audit Committees.

iv. The Auditor General to send back to the Committee these facts, together with the other available information which the Committee had received and referred to the Auditor General regarding the problems associated with the affairs of the institution.

Reporting Present Status and Progress

i. The Manager (Investigation) of the Ceylon Petroleum Storage Terminal Limited stationed in Kolonnawa has, by his letter No. 22.03.11 dated 06.04.2018, submitted a report to the Committee in this regard. Annexure 9.

ii. On 24.04.2018, the Managing Director of the Ceylon Petroleum Storage Terminal Limited submitted the letter Annexure 10 dated 06.04.2018 sent by the insurance company regarding this matter to the Committee.
Based on the factors discussed under A & B above, even if there are term contracts in progress, the single cargo purchases cannot be avoided entirely due to the following reasons:

i. There could be a gap between time of completion of one term contract and the commencement of the subsequent term contract. Some term tenders could not be completed within the forecasted time frame due to various issues faced during the tender process as well as contract execution phase. If there is no effective term contract to purchase the required cargo or cargo combinations, CPC required to float single cargo tenders to meet the import requirement to assure an uninterrupted fuel supply in the country.

ii. There could be variations in the demand which cannot be replenished from the combinations and volumes of cargo in ongoing term tenders as the creation of ulage is depend on the sales of each individual product.

iii. Refinery production may not be uniform due to technical or any other unpredictable reasons impacting on sudden import requirement.

iv. Despite contracts are in progress suppliers may not be able to provide cargo under term contracts or delay in delivery of agreed cargo under term contract. Some contracts CPC has to commit number of cargoes (one or two) per month on same contracts since the supplier need to organize shipping arrangements If CPC requested more cargoes than the contractually committed numbers per months to cater to the sudden changes in the demand, the supplier could honor the CPC request depending on the availability of product.

v. In the event if one cargo is rejected and supplier fails to deliver a replacement cargo instead of the rejected cargo to replenish stocks timely, CPC will have to float tenders for single cargo purchase to avoid any shortage of such petroleum products in the country.

vi. Sudden demand variations from the power sector due to lack of rain in the hydro catchment areas.

vii. Sudden break down of Coal power plants and other IPP failures due to technical issues will also compels CPC to import more Diesel and Fuel Oil.

viii. Some unpredictable heavy rain may cause CEB to generate more hydropower while stopping the consumption of Fuel Oil which can create issues on the storage of refinery produced Fuel Oil. As a precautionary measures, CPC compels to curtail its Refinery production to control the Fuel Oil throughput which automatically leads to low throughput of other products produced by the Refinery. This can create a situation where sudden import of refined petroleum products is needed to meet the short fall which may not possible to cater from Term contracts.

ix. There are occasions were LIOC refused to import cargo to replenish stocks in Kolonnawa and Muthurajawela terminal in which case CPC will have to order cargoes from term contracts.
with short notice or CPC compels to call for single cargo tenders to purchase such quantities to ensure the energy security of the country.

In this context, CPC do not agree with the observation of the Government Audit Department which specified that CPC has purchased specified 11 shipments while the term contract in progress. It is to be noted that there were no term contracts in operations at the time of floating of tenders pertaining to these 11 shipments mentioned in the report to purchase the respective single cargoes and respective products and volumes in the combined cargo shipments.
Annexure 02

2. Procurement Method

In complying with the decision of the Cabinet of Ministers based on the Cabinet Paper Ref: 12/0295/510/003/TRB dated 22nd March 2012, CPC has time to time entered into term contracts for the supply of petroleum products with extended credit facilities. The list of Term Tenders/contracts prevailed/implemented by CPC with the approval of the SSCAPC and the Cabinet of Ministers from December 2013, are given in Annex A. Despite the term agreements, purchasing of products through single cargo tenders are inevitable owing to below mentioned issues and constraints faced by CPC under the prevailing operations conditions and aged infrastructure pertaining to petroleum product discharge from tankers, storage and inland distribution in Sri Lanka.

A. Types of Cargo Purchasing Contracts by CPC

There are three types of tenders that CPC used to procure Refined Petroleum Products are given below;

a. Term Tenders

The term tenders are for the purchase of many numbers of one types of product in a single contract and/or many numbers of two or three combinations of different types of products in one contract, forecasted to be purchased by CPC to cater to the import requirement for a particular time period through competitive bids invited from registered suppliers of CPC.

Generally this period is to cover the forecasted six months import requirement of refined petroleum products by CPC. CPC entered into these term contracts after calling bids from registered suppliers with the bid documents recommended by the Oil Procurement TEC (appointed by the General Treasury) and approved by Special Standing Cabinet Appointed Procurement Committee (SSCAPC) and after evaluation of bids by the same TEC and SSCAPC. These tenders are awarded after obtaining the approval from the Cabinet of Ministers.

b. Single cargo tenders

Single cargo tenders are for the purchase of one single shipment to cater to the demand. Purchases of single cargoes are also done through competitive bidding, 100% compliance to National Procurement Agency Guide Lines of Sri Lanka. All these tender documents are timely communicated to the registered suppliers in addition to the publishing of same in the CPC website. If there is no term contracts which can cover intended product category
or if the procurement process of term contracts is in progress, cargoes will have to be purchased through single cargo tenders. Generally these cargoes are planned by the SRC 60 days in advance from required two day delivery date range at Colombo. There are instances where single cargoes are also purchased 25 to 45 days in advance from required two day delivery date range at Colombo determined by weekly SRC meeting.

Once the SRC decision is taken, standard tender document which has been recommended by the Oil Procurement TEC and approved by the SSCAPC will be used to float the relevant tenders using the list of registered suppliers of CPC. Covering approval for each and every tender document will be obtained at the immediate SSCAPC meeting which will usually be held on weekly basis. Generally tenders are closed after two weeks period and the bids will be opened in the presences of the Bid Opening Committee appointed by the Secretary of the Ministry. Then the tenders are forwarded to the TEC by the secretary of the Bid Opening Committee and the TEC evaluation report along with recommendations will be forwarded for the approval of the SSCAPC. Once the approval of the SSCAPC is granted the tenders are awarded with the validity of 72 hrs. Obtaining Cabinet Approval for Single cargo tenders are done on monthly basis which is the only difference compared to the term contract tenders.

e. Spot cargo purchases

Spot cargoes are the cargoes purchased under emergencies. This could be done through Government to Government basis or through contact subject to the approval of the SSCAPC. This could even be done with the approval of the Cabinet of Ministers depending on the situation.

The only occasion that CPC had purchased cargo on spot basis was the Jet A-1 cargo purchased from Indian Oil Corporation (IOC) to cater to the sudden shortage resulting from unexpected sale of Jet A-1 during winter season and also due to the un expected sales increase of Kerosene arising due to the adulteration with auto Diesel used in the transport sector. SSCAPC approval had been obtained for this cargo delivered during January 08-10/12/2017. This purchased has also been notified to the Cabinet of Ministers and the Cabinet Committee on Economic Management.

Based on the above explanation on three type of tenders/purchasing method, CPC has not purchase petroleum products on spot basis except only one occasion mentioned under A- c above. All other cargoes have been purchased by CPC as single cargo or as term cargoes after following government tender procedures.
### Table 1

CPC explanations for the import of 11 cargoes specified in the Audit Report

<table>
<thead>
<tr>
<th>Tender Number</th>
<th>Delivery Laycan</th>
<th>Product / products Combination &amp; SRC Date</th>
<th>Reason for the Purchase as a single cargo</th>
</tr>
</thead>
</table>
| 1 BK/01/2017  21st November 2016 | 05-06/01/2017 | Gasoline 92 UNL - 255,000 Bbls +/- 10 %  Gasoline 92 UNL - 65,000 Bbls +/- 5 % | i. Delivery of cargo under previous term contract dated 17/05/2016 (Item-3, Table-3 of Annex A) completed with the delivery of final cargo during laycan 07-08/09/2016  
ii. New term contract had been signed by the seller on 22nd December 2016 whereas CPC has signed the same on 02nd January 2017. Hence, the earliest possible ordering of the first consignment of this combination of cargoes was only for delivery after 30 days from the date of contract come into force which was for delivery from 02nd February 2017.  
iii. There was no operative term contract to purchase this cargo combination for delivery during laycan 05-06/01/2017. Hence, CPC compiled to purchase this cargo as a single cargo after a competitive bidding process with the approval of the SSCAPC. |
| 2 BK/05/2017  16th December 2016 | 22-23/01/2017 | Gasoline 92 UNL - 318,750 Bbls +/- 5 % | i. While one shipment remained to be purchased, validity of the previous term contract dated 17/05/2016 (Item-2, Table-3 of Annex A) had been expired on 31/01/2016. The requested validity extension has not been received by CPC at the time of decision by SRC (alternatively to order this consignment from the term contract expected to extend the validity with the approval of the SSCAPC and the Cabinet of Ministers). This approval has not been granted by SSCAPC due to the suppliers M/s. Petrochina International (Singapore) Pte. Ltd., Singapore did not agree to reduce the quoted premium in the negotiation had with SSCAPC.  
i. The subsequent contract for the Gasoline 92 UNL single cargo purchases had been concluded on 20th April 2017.  
i. There was no valid term contract in operation at the time of this tender was floated to purchase a single cargo of Gasoline 92 UNL with the approval of SSCAPC for delivery during specified delivery laycan.  
i. There was Gasoline 92 UNL production loss from the refinery due to the catalytic re-generation done during this time period requiring to import Gasoline 92 UNL. |
| 3 BK/25/2017  14th February 2017 | 29-30/03/2017 | Gas Oil 500 ppm - 300,000 Bbls +/- 5 % | i. Delivery of cargo under previous term contract dated 22/06/2016 (Item-5, Table-3 of Annex A) for the purchase of Gas Oil 500 ppm completed with the delivery of final cargo during laycan 01-02/01/2017.  
i. Subsequent new term contract for the purchase of Gas Oil 500 ppm single cargoes had been concluded on 20th April 2017.  
i. There was no valid term contract in operation at the time of floating and awarding of this tender to purchase a single cargo of Gas oil 500 ppm with the approval of SSCAPC for delivery during specified delivery laycan.  
i. This shipment has been decided by SRC considering the Diesel demand for power generation during the dry weather period where thermal power generation had been increased as high as 90% of the total generation while the water levels in the reservoirs had been dropped to about 25 % while the hydro generation fraction as low as 9% of the total required generation capacity during the forecasted period. |
| 4 BK/26/2017  21st February 2017 | 05-06/04/2017 | Gas Oil 500 ppm - 300,000 Bbls +/- 5 % | i. Delivery of cargo under previous term contract dated 22/06/2016 (Item-5, Table-3 of Annex A) for the purchase of Gas Oil 500 ppm completed with the delivery of final cargo during laycan 01-02/01/2017.  
i. Subsequent new term contract for the purchase of Gas Oil 500 ppm single cargoes had been concluded on 20th April 2017 and the delivery of 1st cargo only possible after obtaining the approval from the Cabinet of Ministers 30 days from the date of placing the order after concluding the contract (Refer Annex I).  
i. There was no valid term contract in operation at the time of floating & awarding of this tender to purchase a single cargo of Gas Oil 500 ppm with the approval of SSCAPC for delivery during specified delivery laycan.  
i. This shipment has been decided by SRC considering the Diesel demand for power generation during the dry weather period where thermal power generation has increased as high as 90% of the total generation while the water levels in the reservoirs had been at the same 25 % of capacity while the hydro generation fraction dropped to 8% during the forecasted period. CEB representatives to the SRC have requested the importance of supplying Diesel and Fuel oil without interruption to maintain the system stability. The total requested diesel quantity for power generation for the period from 20th February to 26th March was 72,000 MT (except transport sector daily demand of more than 5,000 MT per day) which should be replenished by early April to avoid any shortage of Diesel due to extremely high consumption by Power plants. |
<table>
<thead>
<tr>
<th>Tender Number &amp; SRC date</th>
<th>Delivery Laycan</th>
<th>Product / products Combination</th>
<th>Reason for the Purchase as a single cargo</th>
</tr>
</thead>
<tbody>
<tr>
<td>BK59/2017 06th June 2017</td>
<td>17-18/07/2018</td>
<td>Gas Oil 500 ppm - 110,000 Bbls +/- 5% Jet A-1 - 200,000 Bbls +/- 5%</td>
<td>i. Delivery of cargo under previous term contract dated 24/01/2017 (Item-3, Table-4 of Annex A) for the purchase of combined cargoes of Gas Oil 500 ppm and Jet A-1 completed with the delivery of final cargo during laycan 17-18/06/2017. ii. Delivery of cargoes under the subsequent new term contract for the purchase of combined cargoes of Gas Oil 500 ppm and Jet A-1 was expected from 29th September 2017 (this date subsequently should have been revised to 10th October 2017 with the approval of SSCAPC due to the delays occurred during procurement process). This term contract has been subsequently cancelled with the approval of the Cabinet of Ministers. The reason for cancellation has been explained on the respective Cabinet Paper. iii. There was no valid term contract in operation to purchase a single shipment of combined cargoes of Gas Oil 500 ppm and Jet A-1 for delivery during specified delivery laycan.</td>
</tr>
<tr>
<td>BK54/2017 20th June 2017</td>
<td>02-03/08/2017</td>
<td>Gasoline 92 UNL - 233,750 Bbls +/- 10% Gasoline 95 UNL - 85,000 Bbls +/- 5%</td>
<td>i. Delivery of cargo under previous term contract dated 02/01/2017 (Item-2, Table-4 of Annex A) for the purchase of combined cargoes of Gasoline 92 UNL &amp; Gasoline 95 UNL completed with the delivery of final cargo during laycan 11-12/07/2017. ii. Delivery of cargoes under the subsequent new term contract for the purchase of combined cargoes of Gasoline 92 UNL &amp; Gasoline 95 was expected from 29th September 2017 (this date subsequently should have been revised to 10th October 2017 with the approval of SSCAPC due to the delays occurred during procurement process). This term contract has been subsequently cancelled with the approval of the Cabinet of Ministers. The reason for cancellation has been explained on the respective Cabinet Paper. iii. There was no valid term contract in operation to purchase a single shipment of combined cargoes of Gasoline 92 UNL &amp; Gasoline 95 UNL for delivery during specified delivery laycan.</td>
</tr>
<tr>
<td>BK57/2017 27th June 2017</td>
<td>12-13/08/2017</td>
<td>Gas Oil 500 ppm - 110,000 Bbls +/- 5% Jet A-1 - 200,000 Bbls +/- 5%</td>
<td>i. Delivery of cargo under previous term contract dated 24/01/2017 (Item-3, Table-4 of Annex A) for the purchase of combined cargoes of Gas Oil 500 ppm and Jet A-1 completed with the delivery of final cargo during laycan 17-18/06/2017. ii. Delivery of cargoes under the new term contract for the purchase of combined cargoes of Gas Oil 500 ppm and Jet A-1 was expected from 29th September 2017 (this date subsequently should have been revised to 10th October 2017 with the approval of SSCAPC due to the delays occurred during procurement process). This term contract has been subsequently cancelled with the approval of the Cabinet of Ministers. The reason for cancellation has been explained on the respective Cabinet Paper. iii. There was no valid term contract in operation to purchase a single shipment of combined cargoes of Gas Oil 500 ppm and Jet A-1 for delivery during specified delivery laycan.</td>
</tr>
<tr>
<td>BK61/2017 11th July 2017</td>
<td>01-02/09/2017</td>
<td>Gasoline 92 UNL - 222,750 Bbls +/- 10% Gasoline 95 UNL - 85,000 Bbls +/- 5%</td>
<td>i. Delivery of cargo under previous term contract dated 02/01/2017 (Item-2, Table-4 of Annex A) for the purchase of combined cargoes of Gasoline 92 UNL &amp; Gasoline 95 UNL completed with the delivery of final cargo during laycan 11-12/07/2017. ii. Delivery of cargoes under the subsequent new term contract for the purchase of combined cargoes of Gasoline 92 UNL &amp; Gasoline 95 was expected from 29th September 2017 (this date subsequently should have been revised to 10th October 2017 with the approval of SSCAPC due to the delays occurred during procurement process). This term contract has been subsequently cancelled with the approval of the Cabinet of Ministers. The reason for cancellation has been explained on the respective Cabinet Paper. iii. There was no valid term contract in operation to purchase a single shipment of combined cargoes of Gasoline 92 UNL &amp; Gasoline 95 UNL for delivery during specified delivery laycan.</td>
</tr>
<tr>
<td>BK63/2017 18th July 2017</td>
<td>13-14/09/2017</td>
<td>Gas Oil 500 ppm - 190,000 Bbls +/- 5% Jet A-1 - 120,000 Bbls +/- 5%</td>
<td>i. Delivery of cargo under previous term contract dated 24/01/2017 (Item-3, Table-4 of Annex A) for the purchase of combined cargoes of Gas Oil 500 ppm and Jet A-1 completed with the delivery of final cargo during laycan 17-18/06/2017. ii. Delivery of cargoes under the subsequent new term contract for the purchase of combined cargoes of Gas Oil 500 ppm and Jet A-1 was expected from 29th September 2017 (this date subsequently should have been revised to 10th October 2017 with the approval of SSCAPC due to the delays occurred during procurement process). This term contract has been subsequently cancelled with the approval of the Cabinet of Ministers. The reason for cancellation has been explained on the respective Cabinet Paper. iii. There was no valid term contract in operation at the time of floating of this tender to purchase a single shipment of combined cargoes of Gas Oil 500 ppm and Jet A-1 for delivery during specified delivery laycan.</td>
</tr>
<tr>
<td>Tender Number &amp; SRC date</td>
<td>Delivery Laycan</td>
<td>Product / products Combination</td>
<td>Reason for the Purchase as a single cargo</td>
</tr>
<tr>
<td>-------------------------</td>
<td>-----------------</td>
<td>-------------------------------</td>
<td>-----------------------------------------</td>
</tr>
</tbody>
</table>
| BK/67/2017 08th August 2017 | 18-19/09/2017 | Gas Oil 500 ppm – 168,750 Bbils +/- 10%  
Gas Oil 10 ppm – 56,250 Bbils +/- 10%  
Gasoline 92 UNL – 86,700 Bbils +/- 10% | i. Delivery of cargo under previous term contract dated 02/01/2017 (Item-1, Table-4 of Annex A) for the purchase of combined cargoes of Gas Oil 500 ppm, Gas Oil 10 ppm and Gasoline 92 UNL completed with the delivery of final cargo during laycan 12-13/06/2017.  
ii. Delivery of cargoes under the subsequent new term contract for the purchase of combined cargoes of Gas Oil 500 ppm, Gas Oil 10 ppm and Gasoline 92 UNL was expected from 29th September 2017 (this date subsequently should have been revised to 10th October 2017 with the approval of SSSACP due to the delays occurred during procurement process).  
This term contract has been subsequently cancelled with the approval of the Cabinet of Ministers. The reason for cancellation has been explained on the respective Cabinet Paper.  
iii. There was no valid term contract in operation to purchase a single shipment combined cargoes of Gas Oil 500 ppm, Gas Oil 10 ppm and Gasoline 92 UNL for delivery during specified delivery laycan |
| BK/70/2017 03rd October 2017 | 27-28/11/2017 | Gasoline 92 UNL – 318,750 Bbils +/- 5% | i. Delivery of cargo under previous term contract dated 20/04/2017 (Item-2, Table-5 of Annex A) for the purchase of three numbers of single cargoes of Gasoline 92 UNL completed with the delivery of final cargo during laycan 06-07/09/2017.  
ii. Delivery of cargoes under the subsequent new term contract for the purchase of four numbers of single Gasoline 92 UNL was expected from 23rd June 2018.  
There was no valid term contract in operation to purchase a shipment of Gasoline 92 UNL single cargo for delivery during specified delivery laycan |
Annexure 04

3. CPC Comments on the Loss Calculated by the Government Audit Department

a. Loss calculated under Annexure I of the Audit Report

The term tender prices used in the calculation to show the losses incurred as depicted in the Annexure I of the Government Audit Report were the prices of the term contracts which deliveries were concluded at time of deciding and awarding of the respective single cargo tenders with the approval of SSCAPC. Some figures were taken from the term tenders were yet to commence deliveries after concluding the contract compared to the delivery of the cargo purchased under single cargo tender (BK/01/2017).

Only one shipment under the term contract dated 17/05/2016 for Gasoline 92 UNL single cargo was available at the time of floating the tender for the purchase of single cargo of only Gasoline 92 UNL under tender reference BK/05/2017. This remaining cargo under this term contract dated 17/05/2016 could not be purchased due to the expiry of the delivery period allowed in the contract (validity period of the contract had been lapsed on 31/10/2016) at the time of floating and awarding of the single cargo tender for the purchase of Gasoline 92 UNL under tender reference BK/05/2017. Approval from the SSCAPC and the Cabinet of Ministers to extend the validity of the said Gasoline 92 UNL cargo term contract had not been available at the time of floating and awarding of the single cargo tender under tender reference BK/05/2017. SSCAPC approval had not been granted ultimately due to the inability of the supplier M/s. Petrochina International (Singapore) Pte. Ltd., Singapore to reduce the premium prevailed in the said contract during the negotiation had with SSCAPC to consider an extension of the contract to buy the remaining one cargo.

Additional comments of CPC on the Annexure I & Annexure II of the Government Audit report is given in the below Table 2 and Table 3 respectively.
5. Cancellation of Term Tenders

The three term tenders indicated in the following Table 4, floated with the Procurement Time Schedule attached in Annex B has been cancelled with the approval of the Cabinet of Minister;

<table>
<thead>
<tr>
<th>Tender reference</th>
<th>Product Combination</th>
<th>Total Quantity</th>
<th>Quantity per Shipments</th>
<th>Number of shipments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 BR / TERM / GAS OIL / GASOLINE / DTB - MUTHU / 2017 - 2018</td>
<td>Gas Oil (0.001% Max Sulphur)</td>
<td>337,500 +/-10%</td>
<td>56,250 +/-10%</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Gas Oil (0.05% Max Sulphur)</td>
<td>1,012,500 +/-10%</td>
<td>168,750 +/-10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gasoline (92 Unl)</td>
<td>520,200 +/-10%</td>
<td>86,700 +/-10%</td>
<td></td>
</tr>
<tr>
<td>2 BK / TERM / GAS OIL / JET A-1 / DTB - MUTHU / 2017 - 2018</td>
<td>Gas Oil (0.05% Max Sulphur)</td>
<td>1,710,000 +/-5%</td>
<td>190,000 +/-5%</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Jet A-1</td>
<td>1,080,000 +/-5%</td>
<td>120,000 +/-5%</td>
<td></td>
</tr>
<tr>
<td>3 BK / TERM / GASOLINE / DTB - MUTHU / 2017 - 2018</td>
<td>Gasoline (92 Unl)</td>
<td>2,040,000 +/-5%</td>
<td>255,000 +/-5%</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Gasoline (95 Unl)</td>
<td>510,000 +/-5%</td>
<td>65,000 +/-5%</td>
<td></td>
</tr>
</tbody>
</table>

The cancellation of the three term tenders were done with the approval of the Cabinet of Ministers in consideration of following facts which can considerably contribute to reduce the financial cost of CPC.

a. Introduction of a Jet fuel filtration facility at Kolonnawa terminal to save approximately 250,000 USD to 300,000 USD per shipment which carries Jet fuel.

b. Completion of balance works of the 12th pipeline connecting Dolphin Tanker Birth of Colombo Port and Kolonnawa Terminal enabling to reduce the ship unloading time from 7 days to 4 days which saves about 50,000 USD of demurrage cost per shipment which carries any product requirement to Kolonnawa Terminal.

c. Review the tender conditions to attract more customers and create more competitiveness.

d. To avoid the creation of monopolistic situation & to mitigate the risk of interruption to product supply due to suspension in the event non-performance/deviation of one contract by awarding all three term tenders to a single party.

This matter has also been brought up at the Presidential Committee Appointed to investigate the recent gasoline Shortage in the country. Minutes of meeting issued by the presidential committee along with the decision of the Cabinet of Ministers referred above are attached as Annex C.
6. Floating of new Term Tenders

Subsequent to the cancellation of the above three term tenders, an initiative has been taken to float the following six term contracts as per the PTS attached as Annex D & Annex E.

Table 5
Details of the six Term Tenders Floated in the first half of 2018

<table>
<thead>
<tr>
<th>Tender reference</th>
<th>Product Combination</th>
<th>Total Quantity (bbls)</th>
<th>Quantity per Shipment (bbls)</th>
<th>Number of shipments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. BK/TERM/GAS OIL/GASOLINE/DTB-MUTHU/2018-3P</td>
<td>GAS OIL (0.00% M.S.)</td>
<td>472,200 +/-10%</td>
<td>52,500 +/-10%</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>GAS OIL (0.05% M.S.)</td>
<td>1,170,000 +/-10%</td>
<td>130,000 +/-10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>GASOLINE (92 UNL)</td>
<td>1,219,500 +/-10%</td>
<td>135,500 +/-10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>OPTION A</td>
<td>960,000 +/-10%</td>
<td>120,000 +/-10%</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>GAS OIL (0.05% M.S.)</td>
<td>1,040,000 +/-10%</td>
<td>130,000 +/-10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>GASOLINE (92 UNL)</td>
<td>480,000 +/-10%</td>
<td>60,000 +/-10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>OPTION B</td>
<td>577,500 +/-10%</td>
<td>82,500 +/-10%</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>GAS OIL (0.05% M.S.)</td>
<td>1,211,000 +/-10%</td>
<td>132,000 +/-10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>GASOLINE (92 UNL)</td>
<td>433,500 +/-10%</td>
<td>54,100 +/-10%</td>
<td></td>
</tr>
<tr>
<td>2. BK/TERM/GAS OIL/JET A-1/DTB-MUTHU/2018</td>
<td>GAS OIL (0.05% M.S.)</td>
<td>1,950,000 +/-5%</td>
<td>150,000 +/-5%</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>JET A-1</td>
<td>2,080,000 +/-5%</td>
<td>160,000 +/-5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>310,000</td>
<td></td>
</tr>
<tr>
<td>3. BK/TERM/GASoline (92 UNL)/DTB-MUTHU/2018</td>
<td>GASOLINE (92 UNL)</td>
<td>1,275,000 +/-5%</td>
<td>318,750 +/-5%</td>
<td>4</td>
</tr>
<tr>
<td>4. BK/TERM/GASoline (0.05% M.S.)/DTB-MUTHU/2018</td>
<td>GAS OIL (0.05% M.S.)</td>
<td>2,700,000 +/-5%</td>
<td>300,000 +/-5%</td>
<td>9</td>
</tr>
<tr>
<td>5. BK/TERM/CRUDE OIL/MURBAN/2018</td>
<td>MURBAN CRUDE OIL</td>
<td>7,000,000 +/-5%</td>
<td>700,000 +/-5%</td>
<td>10</td>
</tr>
</tbody>
</table>

The 1st and 2nd tenders mentioned under the above table have been cancelled while the evaluation was in progress with the approval of the Board of Directors (Annex F) and SSSCAPC (Annex G) due to the directive given by the Government Treasury to import Euro IV standard fuel to the country with effect from 1st July 2018. These two tenders are to be rel floated with revised specifications for Super Diesel (Gas Oil 10 ppm) and Gasoline 95 UNL in compliance with Euro IV standards. Specifications have been prepared by CPC and the tender documents have been forwarded to the SSSCAPC approval. The PTS prepared for these two term tenders are attached as Annex H.

Other tenders (from 3rd to 6th) mentioned in the above table are awaiting for Cabinet Approval to award to the respective bidder for immediate implementation.
Annexure 06
(i)  
(ii)  
(iii)  
(iv)  
(v)
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

(ii) The Economic and Technical Co-operation (ASEAN) and the Economic Co-operation Organization (SAARC) are important fora for enhancing economic and technical co-operation. The Committee has identified a number of significant areas for further cooperation, including:

- Economic and Technical Co-operation (ASEAN)
- Economic and Technical Co-operation (SAARC)

The Committee has identified a number of significant areas for further cooperation, including:

1. Economic and Technical Co-operation (ASEAN)
2. Economic and Technical Co-operation (SAARC)

The Committee has identified a number of significant areas for further cooperation, including:

1. Economic and Technical Co-operation (ASEAN)
2. Economic and Technical Co-operation (SAARC)

The Committee has identified a number of significant areas for further cooperation, including:

1. Economic and Technical Co-operation (ASEAN)
2. Economic and Technical Co-operation (SAARC)
Annexure 07
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka
Annexure 08

OFFICE OF THE CABINET OF MINISTERS
Republic Building, Sir Baron Jayasinha Mawatha, Colombo 01, Sri Lanka.

Urgent & Confidential

18/09/04/831/001
No.

2018-06-28

Mr. Upali Manasinghe
Secretary
Ministry of Petroleum Resources Development
Fax: 2564362

CABINET DECISION

Given below is an extract of Item (53) of the Minutes of the Cabinet Meeting held on 2018-06-26.

Item (53)

With reference to the Cabinet decision dated 2018-05-15 on Cabinet Paper No.18/09/04/831/001, a Note to the Cabinet dated 2018-04-27 by the Minister of Petroleum Resources Development on "Establishment of a Lubricant Blending Plant by Hyrax Oil SDN BHD, Malaysia in Sri Lanka on BOT (Build, Operate and Transfer) Model", it was brought to the notice of the Cabinet that the Ministry of Petroleum Resources Development has not taken action so far to implement the Cabinet decision dated 2016-03-02 on CP No.15/182/746/007-I pertaining to this matter, even though the Ministry has been informed again by the Cabinet decision dated 2018-05-15 that approval has already been granted for this project. After discussion, it was decided to direct the Secretary, Ministry of Petroleum Resources Development, to take action to implement the Cabinet decision 2016-03-02 on this matter without further delay.

It was also decided to treat this decision as confirmed and to authorize the Secretary to the Cabinet of Ministers to convey the same to the relevant authorities for necessary action accordingly.

Action by: My/Petroleum Resources Development

Copied to: Secretary to the President
Attorney General
Secretary to the Prime Minister
My/National Policies and Economic Affairs
My/Finance and Mass Media

S. Abeyasinghe
Secretary to the Cabinet of Ministers
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

Annexure 09


4. Date: 10/07/2018.

5. Date: 02/07/2018.

6. Date: 20/07/2018.

7. Date: 04/07/2018.
8. 

9. 

i. 

ii. 

10. 

11. 

12. 

13. 

<table>
<thead>
<tr>
<th>s.l.</th>
<th>Paragraph</th>
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<tbody>
<tr>
<td>8</td>
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<td>12</td>
<td>12</td>
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<tr>
<td>13</td>
<td>13</td>
</tr>
</tbody>
</table>
06 April, 2018
Managing Director
Ceylon Petroleum Storage Terminals Limited
Dear Sir,

Obtaining total loss claim for WP LY 3020 Prime mover from Allianz Insurance Lanka Ltd

The aforementioned vehicle had met with an accident on 27.05.2017 and the Automobile Function sent the vehicle to Toyota Lanka (pvt) Ltd for the accident repair. After receiving the repair estimate, Allianz Insurance Lanka Ltd decided to settle the claim on total loss basis by paying Rs.10,500,000.00 inclusive of VAT.

This vehicle is manufactured in 2016 and a brand new vehicle and according to the policy, the total value of vehicle is Rs.14,000,000.00. Automobile function refused to agree with the offered value and following actions were taken to obtain the total claim.

1. On 20.09.2017, automobile function sent a letter to Allianz Insurance Lanka Ltd requesting the total value of Rs.14,000,000.00 without any deductions

2. On 23.10.2017, received a reply from Allianz Insurance Lanka Ltd saying that they are unable to revise their offer of Rs.10,500,000.00

3. On 28.11.2017 automobile function sent a letter by attaching a valuation report which was taken from De Silva Motor Engineer (pvt) Ltd for value of Rs.13,800,000.00 and requested to approve total claim.

4. On 26.12.2017, received a reply from Allianz Insurance Lanka Ltd saying that they have decided to offer Rs.11,500,000.00 as final settlement.

5. According to the instruction given by Managing Director of CPSTL, Legal function sends a letter of demand to Allianz Insurance Lanka Ltd to obtain the total claim.

6. On 06.03.2018, received a reply from Allianz Insurance Lanka Ltd saying that they have decided to offer Rs.11,500,000.00 as final settlement

In the above circumstances we will continue to negotiate with Allianz Insurance Lanka Ltd to increase the value of total claim.

Thank You,
Yours Faithfully,

[Signature]
Operations Manger-Automobile Function
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

State Pharmaceuticals Corporation
(Ministry of Health, Nutrition and Indigenous Medicine)

Investigated date: 06th April 2018

Matters Discussed

01. Non-attendance at meetings of Committee

The Committee inquired about the absence of Mr. R. P. K. D. Soyza, who serves as a Director of the Institute. The Committee pointed out that if officers are unable to participate in Committee meetings they should inform it in writing to the Committee.

Recommendations

i. The Committee should be informed in writing mentioning the reasons for the absence in the Committee within a week.

Report the present situation and the progress

Though the Board Secretary has informed this decision taken by the Committee to the relevant officer on 01.05.2018, the relevant officer has not taken action so far as at 31st July 2018 to send a reply.

02. Vacancies in the staff

The committee focused its attention for the 31 executive grade vacancies and 82 non-executive grade vacancies in the institution as at 31.12.2017.

The Chairman stated that though interviews were conducted to fill those vacancies qualified persons did not apply for those posts.

Recommendations

i. Send a report to the Committee including the following information.
   • The date on which the interview was held.
   • Number of applications received (internal and external)
   • Number of qualified applicants.
   • Number of applications that were disqualified.

Reporting of the present situation and the progress

A report including the relevant information has been presented to the Committee by the letter dated 03.07.2018 sent by the Chairman of the State Pharmaceuticals Corporation. Annexure 11.
03. **Retention on contract basis**

The Committee paid its attention on the recruitment of two officers on contract basis for two posts that does not exist in the approved cadre i.e., Chairman (Business resource planning) and Deputy Chairman (Constructions and maintenance) for a period of 05 years and 06 years respectively.

The Chairman of the Committee explained this and the following facts were revealed.

i. The post of Chairman (Business resources planning) has been recruited on contract basis.

ii. It is not a permanent post.

iii. That post is required only for a computer project that is being introduced to the institution.

iv. This post will be abolished upon the completion of the project by April 2019.

v. The Post Manager (Maintenance and Construction) is a post personal to the holder.

vi. This post will be abolished upon the retirement of the incumbent officer.

vii. A qualified person was not turned up though interviews were conducted.

**Recommendations**

i. To look into the manner that the interviews were conducted for those posts.

ii. Submission of all the documents (including the applications) related to the recruitment to the Auditor General.

**Reporting of the present situation and the progress**

The Committee has been reported that all the information related to the interview and recruitments have been given to the external audit unit.

04. **Stock taking**

Failure to present acceptable reasons to justify non – availability of medicine worth Rs.20.7 Million in stocks physically.

The institution submitted the following reasons in this regard.

i. Explanations were called from the officers responsible.

ii. Charged sheets will be handed over once the necessary information is received.
The Chairman of the institution stated that a stocktaking was done for the first time in 2012 and this Rs. 20.7 was the discrepancy prevailed at that time.

The committee instructed that action should be taken to solve that problem by submitting reliable documents.

**Recommendations**

i. Get the approval from the Treasury to write off this amount.

ii. Sending of a report to the Committee explaining the real situation of the Rs. 20.7 million.

**Reporting of the present situation and the progress**

The report with the necessary clarifications has been presented to the Committee in the letter dated 03.07.2018 sent by the Chairman of the Sri Lanka Pharmaceuticals Corporation explaining the reasons for the difference between the ledger balance and unsellable physical stock and selling the items that have been identified as unsellable stock on the decisions taken at a later stage and facts like non-receipt of the reports of some destroyed stock to the Accounts Division, recounting the same stock repeatedly in annual stocktaking as unsellable stock, sending back of some stocks to the suppliers, have been mentioned.

(Annexure 12)

05. **Substandard and expired medicine**

The Committee paid attention to the cost of substandard and expired medicine.

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<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expired medicine</td>
<td>25.5</td>
<td>110</td>
<td>23.5</td>
</tr>
<tr>
<td>Expired medicine</td>
<td>21.3</td>
<td>20</td>
<td>80.9</td>
</tr>
<tr>
<td>Total cost</td>
<td>46.8</td>
<td>130</td>
<td>104.4</td>
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</table>

The Chairman of the Committee expressed his ideas in this regard and the following facts have been revealed.

i. Some types of medicines are imported in abundance because the requirement cannot be assessed properly.

ii. The cost for the substandard and expired medicine will be collected from the suppliers.

iii. Action will be taken to collect that cost without any loss to the institution.
Recommendations

Send a report to the Committee before end of May mentioning the cost that was charged from the suppliers for the substandard and expired medicines in 2015, 2016 and 2017.

Report the present situation and the progress

- The said report has been sent to the Committee by the Chairman through his letter dated 03.07.2018. See attachment 13.

06. The Osu Sal

It was questioned whether there are Districts without any Osu Sal while focusing the attention on the Osu Sala outlets in operation throughout the country

Recommendations

i. Sending a list of Districts where there are no Osu Sala outlet
ii. Giving priority to grant an outlet each to a District

Reporting of the current situation and the progress

Pharmacies that belong to the SPC are functioning in 15 districts and arrangements have been made to open a pharmacy in Dambulla in Matale district and as a result the SPC covers 16 districts and in Trincomalee, Batticaloa, Puttalam, Vavuniya, Kilinochchi, Mulative, Mannar, Nuwara Eliya, and Kegalle pharmacies have not been established. This has been reported to the Committee in a letter dated 03.07.2018 issued by the Chairman of the SPC. (Annexure 14)

07. Charging demurrages

In the year 2014 there was a delay in purchasing Formoterol Fumarate and Budesonide Dry Powder Capsules and the demurage of Rs.20.3 million that should be charged from the supplier had not yet collected.

The institution accepted that demurrages were not collected up to now.

Recommendations

Take a decision in this regard in the Audit Committee.
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

Annexure 11

<table>
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<tr>
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M. W. Pushpa Jannett
Deputy General Manager (HR & Admin)
State Pharmaceuticals Corporation
78, Sir Barati Jeevanathak Mawatha, Colombo 01.
Annexure 12

[Signature]

15.05.2018

[Holder of Signature]

[Stamp]

[Name on Stamp]

[Title on Stamp]

[Address on Stamp]

Parliamentary Series No 203

50
### Annexure 13

#### Table 1

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<th>Year</th>
<th>2015</th>
<th>2016</th>
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<td>Sales</td>
<td>17,672,563.67</td>
<td>110,007,776.18</td>
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#### Table 2

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<tr>
<td>Sales</td>
<td>17,672,563.67</td>
<td>110,007,776.18</td>
<td>44,943,827.57</td>
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<tr>
<td>Cost</td>
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Deputy General Manager (Marketing)
State Pharmaceuticals Corporation of Sri Lanka
No. 75, Sir Baron Jayatilaka Mawatha
Colombo 31
### Annexure 14

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<td></td>
<td>12) Anuradapura District</td>
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</table>

**Expected to open in 2018**
- Peradeniya (Kandy District)
- Dambulla (Matale District)

**Raiya Osu Sala not available**
- Trincomalee District
- Batticalo District
- Puttalam District
- Vavuniya District
- Kilinochchi District
- Mullaitivu District
- Mannar District
- Nuwara-Eliya District
- Kegalle District
Matters discussed

01. Non-performing loans

The fact that the Committee had not been informed about the steps taken by the institution to recover the non-performing loans with regard to the construction of the Kandy City Center and it was observed that the loan balance as at 31.05.2018 was Rs.346.45 Million and as at 31.05.2018 the capital is Rs.116.29 Million and interest and other charges were 230.16 Million.

Recommendations

The Ministerial Secretary was informed to take the following actions and inform the Committee.

i. Direct the relevant facts of the report (Ref. No. 3.1.3 to ref. no. 3.1.5 and ref. no. 4.2) submitted by the Auditor General on the investigation held that day to the Bank Supervision Department through the Ministerial Secretary to get their opinion and direct it to the Committee.

ii. Report whether the procedure that had been adopted to collect non-performing loans can be justifiable.

iii. Submit a detailed report of the written off interest and the capital with regard to the fact no. 4.2.

Reporting of the present situation and the progress

No courses of action that have been taken in this regard has been reported to the Committee as of 31st July 2018.

02. Loan Administration

The bank has donated Rs.38,446.9 Million worth loans in 2017 and Rs. 3,607 (9%) of that had been transferred to the non-performing loan section as of 31 May 2018, and not a single installment had been collected from a loan that was worth Rs. 140 Million and not a single installment had been collected from loan capital that was worth Rs.910 Million and as of 31.05.2018 Rs.75 Million had been paid out of the interest that was Rs.133.8 Million.
All these loans have now been entered into the bad debt account and the Chairman stated that that amount would be considered as non-performing loans.

**Recommendations**

i. In respect of the amount of loan that had been write off from 2012-2017;
   - List of names of the institutions
   - Amount of loan, paid back
   - Amount of loan, to be paid back
   - Whether, the amount of loan obtained by the above institutions had been totally written off
   - If not, whether legal action had been taken in respect of the above matters and to submit a report to the committee including details on the above.

**Reporting of the present situation and the progress**

i. The Chairman of the People’s Bank had submitted a detailed report on the above matters to the Committee with his letter dated 12.09.2018.

**03. People’s Leasing Finance Company**

It was observed that the People's Leasing Property Development, a subsidiary established by the People’s Bank through the People’s Leasing Finance Company has been awarded 13 contracts worth Rs.1,964 Million without following the procurement procedure and without preparing the quantity bills and as per the discussion took place in the previous meeting the Chief Accounting Officer agreed not to award contracts to that company again but the projects of the Banks have again been awarded to that Company by a Board Paper dated 19.05.2017 and Number 343/2017 with the approval of the Board of Directors and the Committee inquired the reasons for that.

The Chairman stated that the main reason to change that decision was the inception of automated banking system from 2016 and the number of engineers serving in the bank being less than 20, they lack the capacity to launch such mega projects and as a result of that they had to award that 16 projects to that company and action has been taken to adjust the prices eliminating the adverse impact on the institution.

The Chairman stated that the constructions of that Company was assessed by the KPMG Auditors and according to the cost of the contract and the assessment of the KPMG Auditors there is a difference of Rs. 674 million between the value and the expenditure but the bank is satisfied with the work.

**Recommendations**
i. Send the KPMG Auditors’ report to the Secretary to the Ministry through the Auditor General

ii. Take a decision in this regard after considering the report.

**Reporting of the present situation and the progress**

i. Has not been reported.

**04. Middle level management of the institution**

The post of Chairman, Sales Executive, Senior Deputy Chairman, Chief Treasurer and Investment Banking Officer had been recruited on contract basis within a considerable period i.e., 9 years to 15 years and the posts like Finance Chief, IT Chief, Business Banking Chief and additional legal officer had been recruited on contract basis and the Committee inquired about the steps taken at the Ministerial level with regard to those appointments made on contract basis.

The Chairman stated that the recruitment of officers on contract basis was started in 2001 and the bank had been under the threat of closure so that the newly appointed management in that year decided to rectify the institution’s courses of action by recruiting about 10 officers with the expertise in the banking sector because recruitment of permanent officers to such posts lead to practical problems and therefore they were recruited on contract basis and their salaries were paid through an institution named Management Systems Ltd (MSL) for a considerable period of years and he stated that he cannot see any clear reason for that. He further stated that a decision would be taken about paying salaries through MSL.

**05. Salary of the General Manager and the service extension**

It was observed that the Salary of the General Manager is Rs.2.1 million and he has been recruited on contract basis and Rs.75 million has been paid to the then Chairman and the present Chairman as salary deficit under the agreement that promises annual 10% increase to the salary and approval has been sought to extend the service of the present Chairman.

The Chairman stated that the above mentioned two officers had been paid Rs.75 million as salary deficit and since the approval of the Board had been given the institution has a liability to pay that amount and the General Manager is to go on retirement in October and since the newly appointed officer needs time for training 6 months of service extension has been requested.

**Recommendations**
i. Not to give service extensions to the officers over 60 years to set a precedent to the state banks.

ii. Inform the Secretary to the Ministry of Finance in writing about that.

**Reporting of the present situation and the progress**

Though the Chairman of the People’s Bank was informed to act according to the recommendations made by the Committee in a letter dated 17.08.2018 and No. MPED/ IA-2COPE/PB sent by the Secretary to the Ministry of State Enterprise Development and Kandyan Development the Committee has not been informed about the future actions that were taken.

**06. Digitalization**

It was observed that a report has been sent to the Committee according to the advice given in the previous Committee on public enterprises and the Committee inquired whether an additional Rs.84 million was paid.

The Chairman stated that a payment of Rs.84 million was paid in this year and when the digitalization process was going between 2015-2016 the project was delayed more than 6 months and the project could not be implemented until the final report of the Committee appointed for that was released and this payment was made after taking into consideration the bills submitted by the foreigners arrived here to provide training in digitalization.

**Recommendations**

i. Recommend the Auditor General to provide his recommendations within a period of two months after studying the report sent by the Ministry.

ii. Recommend to the Secretary to the Ministry to look into the fact that whether this loss was caused due to the delay in presenting the report of the Ministry.

**Report the present situation and the progress**

Has not been reported.

**07. Amendments to the Act**

The Committee requested about the proposed amendments brought with a view to regularize the capital as discussed in the previous meeting.

The Chairman stated that these amendments have now been gazette and after that, it will be referred to Parliament.

**Proposed Amendments**
i. Increase the capital of the bank up to Rs.50 Billion

ii. Issue debentures from the bank itself

**Recommendations**

It seems that the institution has implemented a certain system to collect the non-performing loans and to check and report the accuracy of it to the Auditor General.

**Reporting of the present situation and the progress**

i. Progress has not been reported.

**08. Financial fraud at the Peradeniya Branch**

The Committee requested whether the People’s Bank has any connection to the alleged financial fraud that had taken place when money was withdrawn from the fixed deposits of the postgraduate institute of the Peradeniya University.

The Chairman stated that the investigations have not yet been completed and the relevant Bank Manager was reprimanded and after the investigations, proper action would be taken with regard to the said officer.

**Recommendations**

i. Recommend to the Chairman that a report be presented to the Committee once the investigations are complete.

**Reporting of the present situation and the progress**

i. This report has not been submitted to the Committee as at 31st of July 2018.
Janatha Estate Development Board
Matters Discussed

01. **Not appointing a new board of directors after accepting the resignation of the then Board of Directors**

However, the Janawasama Chairman and the Board of Directors have handed over their resignation to the Secretary to the Ministry and that has not been accepted.

Recommendations

i. Report in this regard with the resignation letters sent by the Board of Directors and the letters sent by the Ministry not accepting the resignation.

**Reporting of the present situation and the progress**

i. This has been reported by the letter dated 12.12.2018 and No. MPI/ACC/F12/COPE/56-2018 of the Secretary to the Ministry of Plantation Industries and accordingly the line Ministry has appointed a new board of directors with effect from 21.08.2018.

02. **Not providing answers to 11 audit queries out of 17 queries in 2016**

The Committee showed that there was a deceleration in activities in the institution for the last two years and directions were given to provide answers to the audit queries without delay.

Recommendations

i. Provide answers to the audit queries without delay

**Reporting of the present situation and the progress**

i. Answers related to the audit queries prepared for financial years ended in 31.12.2014 and 31.12.2015 have been submitted to the Committee by the letter of the General Manager of the Janatha Estate Development Board.
03. Not implementing the directives given by the Committee held on 24.02.2016

i. 1991 hectares of land have been leased out to 106 lessees and there was a request for a detailed report on 37 agreements, which were assessed for a very low amount when they were leased out and though the detailed report was provided it did not include all the information.

ii. Action has not been taken to prepare the methodology to get a sufficient profit from the lands in Colombo that belong to the Board, prepare a separate computer database about those lands and assessment of lands that have been assessed to a lower rate without assessing it to the present value.

iii. Leasing out Hanthana Bungalow deviating from the approved methodology.

iv. Calculating the present value of the Janawasama lands in Colombo through the government assessor.

Recommendations

i. A complete report of land, property and lease agreements of Janawasama, should be handed over to the Committee within two months in a format agreed by the Auditor General.

ii. Prepare the data system including the details related to above no. ii.

iii. Check and report whether the Hanthana Bungalow has been leased out following the proper procedures.

Reporting of the present situation and the progress

The present situation of the above recommendations has been submitted in the letter dated 12.12.2018 and No. MPI/Acc/F12/COPE/56-2018 of the Secretary to the Ministry of Plantation Industries.

i. Action has been taken by now to assess the lands and buildings of which assessments have not been made and cases pending before the court.

ii. Action has been taken to prepare a database related to the above recommendation no. ii.

iii. The committee report that has been presented stating that no accepted procurement guideline or a competitive method has been followed when the Hanthana Bungalow was leased out. 
(Annexure 15)
04. Not settling the EPF/ETF, Statutory responsibilities in time

The Committee observed the fact that the value of the surplus as at 31.05.2018 was Rs.432 Million and the value of the gratuity surplus for that day was Rs.428 Million.

The Secretary to the Ministry stated that by 2018 Rs.761 million has been allocated for that and by 2020 a programme has been prepared to control this situation completely.

Recommendations

i. Recommend to the Auditor General to investigate and report whether the course of action to settle the statutory liabilities, ETF/EPF are functioning properly.

Reporting of the present situation and the progress

The present situation with regard to the above recommendations has been presented by a letter dated 12.12.2018 and No. MPI/ACC/F12/COPE/ 56 – 2018 of the Secretary to the Ministry of Plantation Industries.

i. Rs.761.9 Million has been received from the General Treasury as at 30 June 2018 from 2015 to settle statutory liabilities and Rs.750.61 has been spent to settle the statutory liabilities as of that day.

ii. The total amount of statutory liabilities that should be paid by the Board is Rs.1248 million and plans have been made to settle that amount using the money collected from leasing out lands under the management programme and restructuring programme.

05. Direct deposit of money to an account owned by the Board

The Committee observed that a cheque to the tune of Rs.06 million has been deposited directly in an account owned by the board on 31 July 2017 and the identity of the person who deposited it and the intention of depositing that amount have not been revealed up until 30th June 2018.

Janawasama Chairman stated that this was a first installment of a loan provided by a bank to a buyer to lease out the Hantana factory, a property owned by Janawasama.

Recommendations

i. Submit a report including the following within one month.

➢ Details about the advertisement published in this regard.
➢ Number of investors arrived according to the advertisement and the list of their details.
➢ The methodology adopted to select the investors.
➢ The letters of consent given by the institutions to the investors.
➢ If the approval of the Board of Directors has been granted for all the above facts a report that includes such approvals and dates.

**Reporting of the present condition and the progress**

i. A complete report in this regard has been submitted to the Committee by the Secretary to the Ministry of Plantation Industries in a letter dated 12.12.2018 and No. MPI/ACC/F12/COPE/56-2018.

06. **Provide relief to 55 employees who were subjected to various activities due to political reasons**

Recommendations to provide relief have been given to the Chairman of the Board by the Secretary to the Ministry of State Enterprise Development on 03.12.2016 and in an investigation made later only two employees were recommended to provide with relief and there was a recommendation to take action on another employee according to an order given by the court but it has been revealed that action has not been taken according to the recommendations.

When the above facts were considered it was revealed that an employee who was removed from Janawasama acted as the Chairman of the committee that recommended on employees who were subjected to various activities due to political reasons and a recommendation has not been made in an investigation conducted later to reinstate that person in the service or provide relief but he has been reinstated in service and employed in another estate called Elkaduwa Plantations and salaries have been paid from Janawasama.

**Recommendations**

i. Provide a detailed report to the Committee in this regard.
ii. Provide the documents/ reports related to the above facts.
   ➢ Provide the document that recommended reinstating or providing relief to the officer who was dismissed from service.
   ➢ Investigate and report whether relief has been provided to another group other than the two employees to whom relief was to be provided according to the recommendations given in an investigation conducted later.
The letter that appointed the employee who was dismissed from Janawasama as the Chairman to the Committee that recommended on the employees who were subject to various type of activities.

Provide the restructuring plan to the Committee and to the Auditor General.

iii. Paying special attention in this regard and taking necessary steps.

**Reporting of the present situation and the progress**

i. A complete report in this regard has been submitted to the Committee by the Secretary to the Ministry of Plantation Industries in a letter dated 12.12.2018 and No. MPI/ACC/F12/COPE/56-2018.

**Annexure 15**
MPED/PI/1/3/25

2018.10. C

02. ඔබ නිදසුන් කොටස් ගත ආරුණ්කෝගී සම්පාදනය අනුගමනයේදී "8/2/2018 නොදු විස්සයක් අවසන් වී මේය"

03. මෙම නම් නිදසුන් විස්සදී සම්පාදනය අනුගමනයේදී සාමාජිකයින් විස්සයක් අවසන් වී ඇත. 2015.08.31 නොදු නොදු 10 යන ඉන්දියාවේ Eco-Chalets අපරාධය නොදු 37250.00 හා 10000.00 අපරාධය

04. මෙම නම් නිදසුන් විස්සදී පුද්ගලිකයින් විස්සයක් අවසන් වී ඇත. 2015.08.31 නොදු නොදු 500,000.00 හා 200,000.00 අපරාධය

05. මෙම නම් නිදසුන් විස්සදී පුද්ගලිකයින් විස්සයක් අවසන් වී ඇත. 2016.09.29 නොදු නොදු 30 සාමාජිකයින් විස්සයක් 3, 02 නොදු 2017.02.26 නොදු නොදු 100,000.00 හා 2,500,000.00 සාමාජිකයින් විස්සයක් අවසන් වී ඇත.
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka
VIII. तीन वर्ष भर विद्यार्थी बनता है जिसमें से कई नेता विकास किया जाता रहता है। उन्हें संस्करण के साथ निजी व साक्षरता रखने की क्षमता प्रदान की जाती है और साथ ही एक अवधि युवा बनाने वाला भी प्रदान किया जाता है।

यह अन्यथा बंद नहीं किया जाएगा वहाँ की कारण यह अन्यथा बंद करने की क्षमता नहीं होगी।

1. हमेशा रुपये के लिए जितने अधिक अनुभव देखा जाएगा तो उसका सामना करना महत्वपूर्ण होगा ।
2. हमेशा लोग जितने अधिक अनुभव देखा जाएगा तो उसका सामना करना महत्वपूर्ण होगा।
3. हमेशा लोग जितने अधिक अनुभव देखा जाएगा तो उसका सामना करना महत्वपूर्ण होगा।

लेकिन यह अन्यथा बंद महत्वपूर्ण है ताकि किसी व्यक्ति अथवा बालिका जितने अधिक अनुभव देखा जाएगा तो उसका सामना करना महत्वपूर्ण होगा।

(संयुक्त रूपों के लिए)

(लोगों के लिए)

2015/10/08

निर्देश: विद्यार्थी निदेशक

नाम: (संयुक्त रूप) ।

देश: (संयुक्त रूप)

अवधि: (संयुक्त रूप)

संयुक्त रूप

07 भाग विभाग
लोकवाद विभाग
श्रेणी में अन्तर्भाव के लिए
संयुक्त रूपों
लोकवाद, 31
National Transport Commission

(Ministry of Transport and Civil Aviation)

Investigated date: 19th July 2018
07th August 2018

Matters Discussed

01. Non-attendance of three officers without prior notice to the Committee

The Committee decided to summon the below mentioned three officers with the Chairman of the National Transport Board at 2.00 p.m on 07.08.2018.

i. Mr. Palitha Samarasingha, Additional Secretary (Technology) Ministry of Transport and Civil Aviation.

ii. Mr. P. H. A. S. Wijerathna, Board member, NTC

iii. Mr. A. M. Asanga Dayarathna, Board member, NTC

02. Issuing of permanent service licenses to the expressways and normal highways

Issuing of permanent service license to the expressways and normal highways was discussed at length.

Recommendations

i. Take action to submit the amendments made to the National Transport Commission Act to the Cabinet of Ministers to remove the irregularities in issuing licenses within 2 months.

Report the present situation and the progress

i. The Chairman of the Commission in his letter dated 08.08.2018 and No. චාකරණය/මිලි/කාපිල්ල/2018 had informed the Committee that amendments to the National Transport Commission Act No. 37 of 1991 have been completed after obtaining ideas and proposals from the bus organizations and commuter’s organizations and after having them discussed with the Ministry of Transport and Civil Aviation now it is ready to be sent to the Ministry of Transport and Civil Aviation for approval.
03. **Issuing of temporary licenses.**

The Committee inquired about issuing of temporary licenses by timekeepers.

**Recommendations**

i. The legal documents/ evidence that transferred power to the timekeepers to issue temporary licenses should be presented to the Committee within a week.

**Report the present condition and the progress**

i. A copy of the letter that transferred power to the timekeepers to issue temporary road licenses and their duty lists have been submitted to the Committee.

04. **The draft interim report given by the Moratuwa University**

The Committee inquired about not taking action according to the draft interim report provided by the University of Moratuwa on the possibility of running buses to the main cities through the outer circular road from the Expressway.

**Recommendations**

i. Provide the interim report of the University of Moratuwa to the Committee.

ii. Get an explanation from the Vice Chancellor of Moratuwa in this regard.

**Report the present situation and the progress**

The report with the above recommendations that was presented by the University Moratuwa has been submitted to the Committee.

05. **Not using the GPS technology in a proper manner and spending Rs. 37 million for that**

The Committee inquired about not fixing GPS equipment only in 725 out of 3171 buses with permanent licenses.

The Chairman of the Committee explained that as per the explanation submitted by the Company that fixed GPS equipment, the Company was unable to carry out maintenance due to the default in payment by the National Transport Commission and therefore GPS equipment are not functioning.
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

**Recommendations**

i. Take action to remove the name of that company from the blacklist.

ii. Conduct a proper investigation again at the Ministerial level.

iii. Inform the Committee and the Auditor General about that within two months’ time.

**Report the current situation and the progress.**

The Secretary to the Ministry of Transport and Civil Aviation in his letter dated 06.09.2018 and No. MT/ 07/08/07/18 - 8 has informed the Committee that according to a proper investigation conducted by the Ministry the facts, legal and written evidence submitted to blacklist the company are not sufficient and blacklisting of that company will not be recommended.

**06. Irregular payments**

i. The Committee inquired about paying Rs.1,891,000/- to record a documentary programme regarding the Commission for the TV.

An officer accepted that though, the above TV programme is used for their promotional activities it is not legal to pay 40% as an initial payment. An internal investigation has been conducted on recording a rupavahini programme and that report has been presented on 13.10.2017. Approval of the Commission has been obtained to conduct a full investigation in this regard and an investigation officer has been appointed for that.

ii. The Commission has spent Rs.8,009,310/- without a proper approval to organize a function.

**Recommendations**

i. Take action to reconsider the said investigation report.

**Report the current situation and the progress**

i. The report presented by the internal audit unit with regard to the spending of Rs.1,891,000/- to record a TV programme on the Commission has been submitted by the Secretary to the Ministry of Transport and Civil Aviation in his letter dated 03.10.2018 and No. MT/07/08/08/15/18-2.

**07. Deposits without proper approval**
The Committee inquired about not taking the consent and the approval of the Minister of Finance for the investments made in fixed deposits, i.e. short-term deposits, call deposits and treasury bonds to the tune of Rs.16,525,336/-, Rs.170,176,087/- and Rs.8,400,591/- respectively for the year under review as per the section 11 of the Finance Act No. 38 of 1971 and Section 8.2.2. of the Public Enterprises Circular PED/12 dated 02 June 2003.

**Recommendations**

i. Discuss this matter with the Secretary to the Treasury and identify the correct methodology that should be followed

**Report the current situation and the progress**

i. Progress has not been reported.
Matters discussed

01. Staff

A General Manager has not been appointed according to the approved recruitment procedure and on permanent basis since 2012 and it was observed that officers had been appointed on contract and covering of duties basis. The committee inquired about its present situation.

The Chairman stated that even when the new board of directors was appointed in 2016 an acting General Manager was serving and when applications were called from internal candidates for this post in 2017, Mr.K.B.R.Perera was selected at the interview for the post of General Manager but a decision was taken to call for applications from external candidates as the board of directors was not satisfied with the appointment of Mr.K.B.R.Perera for the post. At that interview, too the same officer was selected but the board of directors decided to appoint him for a period of six months under covering approval since a disciplinary inquiry against him was still pending. The chairman stated that Mr.K.B.R.Perera had been absolved of all charges and acquitted at the inquiry held at the institution level and even though the period of six months has already lapsed at that time, Mr.Perera’s appointment could not be extended on his own accord and therefore did not do so and since nearly two months then he was working as the Chairman and the Executive Managing Director.

Recommendations

i. The Committee directed the secretary to the Ministry to make a formal inquiry in to stating the post of Executive Managing Director as an executive level post since there is no such mention in the clauses of the constitution of the institution.

Reporting the current status and progress

The committee has been informed that this situation has been corrected.

02. Covering duties on two posts

Inquiring on the provisions relating to appointing the person holding the post of Chairman as the Managing Director and inquiring whether one person can hold more than one executive post.

The Chairman stated that board of management has approved that every Chairman appointed after 2006 should hold the post of Managing Director too.
The Chairman further stated that even though a General Manager has not been appointed to this institution, the need to appoint a General Manager exists.

**Recommendations**

i. As the Committee does not approve this appointment owing to the fact that the Chairman acting as the Managing Director is not consistent with the Act and as the approval has not been obtained for this appointment properly arrangements must be made to rectify this situation within two months.

ii. Directing the treasury to submit a report to the Committee within two months by obtaining a list of executive officers in the institutions and mentioning the allowances and other privileges received by them.

**Reporting the current status and progress**

i. The committee has been informed that this situation has been changed and only the post of Chairman is maintained at present.

ii. The Treasury has not submitted this report to the committee.

**03. Decisions taken at the committee meeting held on 06.04.2016**

i. **Shifting the Head Office to Matale**

The Committee inquired about the progress of the order given to shift the Head Office from Colombo to Matale.

The Chairman stated that arrangements are being made to shift the Head Office to Matale as directed by the Committee and a building is being repaired at present and that the office can be shifted to Matale by 15.09.2018.

ii. **Leasing out of Nelaulla Estate**

The Committee inquired whether the following orders have been complied with in relation to this.

- Taking steps against the parties that have violated the agreements.
- If a person acts in an illegal manner, taking steps against him.
- Conducting a Ministerial level inquiry against the parties that have acquired the lands and submitting a report.

The Chairman stated that an extent of 123 hectares of this land has been acquired by the company. The Secretary to the Ministry said that steps were taken in that regard at a number of levels and that around 255 unauthorized settlers live in the balance 233 hectares and that he expected to take necessary action in regard to
them after obtaining a confirmation from the Divisional Secretary about the period of settlement of those persons.

iii. Reinstatement

The committee paid attention to the discussion at the previous committee about the reinstatement of Mr.K.B.R Perera and Mr.D.S.N.Perera.

The committee inquired whether the K.B.R.Perera mentioned in relation to this matter and the above-mentioned K.B.R.Perera are the same person. Since it is obvious that there are charges against him and that the institution has not maintained the documents pertaining to the lawsuit and information has not been furnished for auditing and that a political victimization committee that was appointed in relation to this person has approved a sum of Rs.2, 694,669/= to be paid to him as compensation for political victimization and according to which the company has paid a sum of Rs.1,600,000/=, the committee inquired about its present status.

The Chairman stated that information pertaining to the cases were obtained from all parties and that he had been acquitted of certain cases due to absence of evidence. The Chairman further stated that the certificate of registration of a vehicle, in relation to a vehicle, is in the custody of the court. As regards the payment of compensation the Chairman stated that payment of a sum of Rs.1,600,000/= for political victimization was not a matter of the institution and that it has happened after the Political Victimization Committee submitting a report to the Cabinet of Ministers and reinstating him with compensation upon receipt of the approval of the Cabinet.

Recommendations

i. Expediting the shifting of the Head Office to Matale as mentioned in (i) above and submitting the recommendations about it to the committee through the Ministry.

ii. Submitting a report on the status of the Nelaulla estate (with the map of the estate) within two months.

iii. Conducting a formal Ministerial level inquiry on the matters referred to in iii above within two months.

Reporting the current status and progress

A report containing the following details has been submitted by the letter of the Secretary of the Ministry of Plantation Industries bearing No.MPI/ACC/F12/COPE-01/2019 dated 28.06.2019.
i. Shifting the Colombo office to Matale is not practical as the Operations offices at the Ratwatta Estate does not have sufficient basic sanitary facilities for a large number of employees, the estate does not have proper accommodation facilities for the employees who are transferred from Colombo even though they have to be provided with such facility and a huge cost has to be borne for accommodation facilities if they are not provided from within, transport service is unavailable and a massive cost has to be borne for updating the facilities available.

ii. A comprehensive report about the current status of the Nelaulla Estate has been submitted to the Committee.

iii. The Ministry has not submitted reports in regard to this matter.

04. Reinstating Mr. K.B.R.Perera

Even though this officer had been reinstated without salary and allowances arrears for the period of interdiction, the company has paid a sum of Rs.1,600,000/= to him for salaries and allowances for the period of interdiction under payment of compensation for political victimization. The Committee inquired as to how such payment was made.

Even though the order of the Labour court was that, subsequently the compensation had been paid upon being recommended by the Political Victimisation Committee and subject to the approval of the Cabinet of Ministers.

Recommendations

i. Checking the documents submitted by the Auditor General’s Department and the facts stated by Mr. K.B.R.Perera and delivering justice to him based only on the facts.

ii. Submitting a report in that regard to the Committee within a month containing the following facts,

- The recommendation of the Political Victimisation Committee.
- The methodology of investigation of that Committee.
- The investigations of that Committee
- The number of people who received justice through those investigations.
- The officers who served on that Committee.

iv. Considering specially the issue of Mr.K.B.R.Perera and conducting an inquiry with the assistance of the Auditor General’s Department and reporting it to the Committee.
v. Conducting an inquiry in the same manner on the issue of Mr. D.S.N. Perera and reporting to the Committee.

**Reporting the Current Status and Progress**

i. Reports containing details relating to the above recommendation (i) has been referred to the Committee.

ii. Progress relating to the above recommendation (ii) has not been reported.

iii. Progress relating to the above recommendation (iii) has been reported to the Committee.

**05. Even though this factory was brought under the management of the Elkaduwa Plantation Company since March 2017 owing to the Failure of the above institution to pay the relevant taxes it was revealed that the factory was still defunct**

The Chairman stated that legal action in that regard had already begun and that legal issues relating to obtaining permission without settling the loans that have to be settled prior to commencing operations, remain.

**Recommendations**

i. Making arrangements for the Elkaduwa Plantation Company to run this factory in order to minimize the massive loss incurred to the Government owing to its closure.

**Reporting the current status and progress**

i. The current status relating to this has been reported.

**06. Leasing out of five factories belonging to the Company**

Two out of the five factories belonging to the company are defunct and the other three have been leased out. The Ratwatta tea factory had been leased out to B.P.N. Company. The lease agreement relating to that had ceased on 28.02.2018 and by then the lessee was to pay a sum of Rs. 10,037,925/= to the company. But the Chairman had decided to lease out the factory again for another twenty years by charging 50% of the above amount due, without the approval of the Board of Directors and the committee inquired about that.

The Chairman stated that it had happened during the previous period, no lease agreements had been signed after 2018 and a sum of Rs. 3.5 million recoverable from the company had been recovered, and that a letter of demand was sent subsequently.
07. **The reservoir in the Sembuwatta Estate**

It was observed that the relevant investigation, in accordance with the following orders given by the previous committee, had not been conducted by the Ministry and the reasons for that were inquired into.

i. Checking whether the allocations provided to the Co-operative society with the involvement of the Ministry are properly utilized.

ii. Whether the sum of Nearly Rs.4 Million received from the Sembuwatta tank is properly utilized.

The secretary to the Ministry stated that even though an internal inquiry was initiated by the Chief Internal Auditor it was handed over to the Chief Accountant with the retirement of the former and that the inquiry was not yet over. He further stated that it was a defect on their part and that the report would be sent within two weeks.

The Committee stated that better results could be achieved when this project is elevated to the level of receiving state sponsorship and advised to make arrangements to develop the project by obtaining the assistance of institutions such as the Tourist Board and Tourism Promotion Authority and introduce a more suitable process with the use of computer technology.

**Recommendations**

i. The Ministry to complete the investigations properly as per the order given by the Committee and report it within a month.

ii. Reporting the income received from the entire estate within a month.

**Reporting the current state and progress**

i. Current progress has not been reported.

**08. Conduct of the Superintendent of the estate**

The committee paid its attention to the contribution of the superintendent of the estate over the development of the reservoir project at the Sembuwatta Estate premises and observed the following shortcomings.

i. Only the three days of 14, 15, and 16 were mentioned in the book used to paste the counterfoils of the tickets issued for the boat service and the cable project.

ii. Non-availability of books relating to dates before the 13th.

iii. Not maintaining a ledger properly.
iv. Making some of the entries of the cashbook of the co-operative society with a pencil.
v. Procurement process not clear.
vi. Non-availability of a formal method of keeping accounts

Recommendations

i. Not following a proper method for continuously pasting the counterfoils of the tickets issued for the Boat service and the Cable project.

ii. Emphasising that this method should not be limited for a few days.

iii. Maintaining the Ledger by following an accepted methodology.

iv. Emphasising that the entries in the cashbook be made in an indelible manner.

v. Following the approved procurement process as this is a government institution.

vi. Following a formal system of keeping accounts

Reporting the current status and progress.

i. Current progress has not been reported.

09. Ratwatte Estate

Even though the previous committee ordered that a report of the secretary of the Ministry with the help of the audit unit by summoning all the six tenderers and taking their evidence about incurring a loss of Rs.15 million by selling cloves of the Ratwatte estate, be sent to the committee, it has not yet been sent and the committee inquired about that.

The Chairman stated that it was a defect of the institution that the report could not be sent and that the inquiry was conducted with the help of a Deputy Auditor General and it could not be completed owing to the absence of the witnesses.

Recommendations

i. Sending a report about it within a month and initiating legal action against the relevant persons.

Reporting the current status and progress

i. A detailed report in regard to this has been submitted to the committee.
10. **Rose quartz deposit**

It was observed that an investor had assigned with the task of mining this deposit for a period of five years from 02\textsuperscript{nd} June 2017 on an agreement that a sum of Rs.13650/= would be paid for a cube of Rose Quartz inclusive of all taxes. Rs.13650/= per cube of Rose Quartz had been paid only for 59.85 out of 164.47 cubes removed from January to 14\textsuperscript{th} June 2018 and Rs.1000 per cube had been paid for the balance 104.62 cubes by categorizing them as waste quartz. The Committee inquired about the current state of the deposit and the veracity of the reports that the project has been suspended.

The Chairman stated that the reports about the suspension of the project was false and applications were called from investors through an advertisement according to which two applications were received and a report was obtained from the Geological survey and Mines Bureau and according to that a valuation report about this deposit which is spread over an extent of five acres was obtained and finally one investor agreed to purchase quartz at the rate of Rs.13650/= per cube. He also stated that permission was granted to construct a road for the project and it was projected that 20 cubes of Rose Quarts would surface at the construction and an interim agreement was entered into for purchasing those quartz too at the rate of Rs.13650/=.

The Committee paid its attention to the facts that it should be specific as to the part of the Quartz the contractor takes away and that the surface of the deposit should be removed according to the agreement and hence the contractor cannot throw away any thing and as the contractor takes away only the inner part of the quarts of which the surface has been removed the institution incurs huge losses. The Committee expressed its displeasure over the lack of knowledge of the chairman about this situation.

**Recommendations**

i. Inquiring about this situation and taking steps expeditiously.

**Reporting the current status and progress**

i. Progress has not been reported.
Matters Discussed

Firstly, the Chairman of the Committee explained the reasons for summoning the Public Utilities Commission and the Ceylon Electricity Board before the Committee.

<table>
<thead>
<tr>
<th>Ceylon Electricity Board (CEB)</th>
<th>i. Discussing issues emerged in purchasing electricity by the Ceylon Electricity Board at present.</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>ii. To discuss matters raised at the meeting held on 24.03.2016 having summoned the Ceylon Electricity Board before the committee on the purchase of electricity; whether electricity should be purchased from power stations or whether power stations be brought under the CEB, the adoption of a transparent method in deciding the price in purchasing electricity and the recommendations issued in respect of the process of purchasing electricity.</td>
</tr>
<tr>
<td>Public Utilities Commission (PUC)</td>
<td>i. Seeking a clarification on the powers and functions of the PUC in regard to the fixing of electricity tariffs as well as fuel prices and water tariffs.</td>
</tr>
<tr>
<td></td>
<td>ii. Discussing the process adopted by the PUC in purchasing electricity and fixing tariffs including how it acts and make interventions.</td>
</tr>
</tbody>
</table>

01. Scope of the Public Utilities Commission

Summoning the PUC before the Committee and making inquiries about its functions, powers and method adopted in fixing prices including purchasing of electricity.

The Director General of the PUC explained the following matters to the Committee.

i. The three sectors of electricity, water and petroleum are covered by the PUC Act.

ii. Of them, the Petroleum Act has been formulated and is due to be referred to Parliament by the subject minister, the legal draft on water service industry has been finalized and action is being pursued for its passage and the Sri Lanka Electricity Act came to force in April 2009.
iii. Since the Acts for Water and Petroleum have not come into effect, these sectors are not regulated by the PUC and only the electricity sector is regulated by the Commission adopting a transparent tariff structure since the Sri Lanka Electricity Act came into effect in April 2009.

iv. In respect of the electricity sector, three instances wherein the implementation of the regulatory price can be identified, i.e.

- Deciding the price to be paid by the consumer
- Deciding the price to be paid to generators in purchasing electricity from generators
- Deciding the price from transmission to distribution (Transmission price)

v. The Director General of the PUC explained to the Committee, the stages of methodology where under each price is decided.

- Price to be paid by the Consumer
  a. Submission of a proposal to the PUC by the CEB for price increase with a proposed tariff structure in line with the expenditure of the CEB
  b. Upon the receipt of such proposal to the PUC, determining the required price employing the regulatory accounting methods, having considered whether the price requested by the CEB is reasonable in comparison to the expenditure indicated.
  c. The CEB and PUC having agreed on the price, hold a public hearing where it deems necessary in the public interest to do so.
  d. Further, since the PUC, in accordance with the provisions of the Act, is subject to the policies of the government (granting subsidies), shall have regard for the policies of the government in determining the eventual price.

Subject to this methodology, the Director General said that the price revisions were carried out in the years 2011, 2012, 2013 and the last one in 2014.

- The price in purchasing electricity from generators

The price in purchasing power from generators is determined in line with the prices indicated in the Power Purchase Agreement at the time of purchasing electricity.

- Price from transmission to distribution of electricity

Only the PUC and the CEB meet once every six months for determining this price.
02. Method in determining the price of electricity in purchasing electricity

The Committee inquired about the regulatory conditions which the CEB had failed to comply with and the method adopted in determining the price in ordinary purchases.

The Chairman of the PUC explained the matters as follows to the Committee.

i. Not devising a method for purchasing electricity from private electricity suppliers.

Though it has been stipulated that a method for determining prices through a bulk supply transaction account should be followed to determine prices with transparency in purchasing electricity from private suppliers, this condition has not been complied with.

In purchasing electricity, purchases ranging from Rs. 100 – 1000 million are made per day. When electricity is purchased from 60 to 70 generating points, there should be a method that determines purchases through a software without human intervention in order to ensure that such purchases are made at a minimum cost. But such a system has not been implemented during the past 5 years and the methodology has hitherto not been devised.

ii. Despite being informed that no tariff revisions would be allowed in future, if the right method was not followed for the determination of the supply price of electricity at the tariff revision in the year 2013, the PUC has not been informed of the reason for the inability to establish this method.

iii. Though a software has been purchased for the determination of the electricity supply price, the total dispatch is not carried out through it.

iv. Though a method is used at present for determining the price in purchasing electricity by the System Control Centre of the CEB, it is not clear what that method is.

Additionally, the Director General of the PUC, made the following clarifications in this connection.

i. The software being used currently has not been audited by a third party.

ii. Though it has been notified to post the details concerning the determination of price on the website to ensure transparency, it has not been followed.
iii. The procedure relevant to the auditing of the method of determining the price in purchasing electricity at present has not been submitted in writing.

03. Summoning CCEB before the Committee

The Committee consulted the officers of the CEB regarding the following disclosures made at the meeting with the PUC.

i. How is the process of purchasing electricity from power stations carried out? What is the pricing formula used? Who determines the price? How is the audit performed?

ii. The generation plan devised by the CEB and its present situation.

iii. Not fulfilling legal requirements in terms of the Electricity Act. (Eg: Nonpayment of interest for deposits)

iv. The reason for forwarding the letter dated 13.07.2018 to the PUC by the General Manager of the CEB and non-compliance with the instructions of the PUC.

The following clarifications were made by the Chairman of the CEB.

The Chairman of the CEB explained –

i. that the supply price in purchasing electricity is determined at the minimum price in terms of the Electricity Act and the minimum price is subject to constant changes from time to time and the minimum price is determined to be commensurate with the demand prevailing at different times of the day through the system control;

ii. though the generation plan approved by the Board of Directors of the CEB on 05.05.2017 was submitted to the PUC, there had been a delay in securing approval for the said generation plan until June 2018 and consequent to various activities, that plan was approved on 12.06.2018 and new power stations could not be established as scheduled during the said period,

iii. though a request was received from the General Manager of the PUC for the payment of the levy, due to the financial difficulties experienced by the CEB owing to each unit of electricity being priced Rs. 3.50 less of the cost, the tax could not be paid immediately and though it has been stated in the letter dated 13.07.2018 that payments would not be made, the CEB Chairman explained that action was being pursued to make the relevant payments in future.
04. **Letter forwarded to the Chairman of the PUC by General Manager of CEB Mr. A.K. Samarasinghe on 13.07.2018**

The Committee, focusing its attention on the letter sent to the Chairman of the PUC by the GM of the CEB Mr. A.K. Samarasinghe dated 13.07.2018 (Annexure 16), stating that the levy payable to the Commission cannot be paid as Mr. Damitha Kumarasinghe is serving as the DG of the Commission and that the CEB is ready to make the payment if Mr. Kumarasinghe is removed and a request is made under the hand of a new DG. The Committee inquired as to why such a letter was forwarded.

The Chairman of the PUC explained to the Committee that the following reasons may have prompted such a reaction.

i. Regulation carried out by the PUC

ii. The Engineers’ Union of the CEB not in agreement with the PUC’s decision on the generation plan.

iii. The Engineers’ Union of the CEB not in agreement with the PUC’s decision on the purchase of power plants.

iv. CEB raising objections over the imposition of conditions relevant to the fixing of prices in a transparent manner through the regulation of prices.

The GM of the CEB explaining about the letter said that the DG was the authorized signatory for the letters of the PUC and since letters had been forwarded on several previous occasions without being signed by the authorized signatory, this letter was sent as a response. He however said that the invoices were being inspected as of then and action was being pursued to make the payments.

The Committee stressed that the regulatory income taxes should be paid by 30th June every year in terms of the provisions of the Act and added that since such legal provisions were in place there was no need for a letter. Further, it was revealed at the Committee that the invoices required for payments had been referred to the CEB by the letter dated 21.05.2018.

The Committee emphasized that the essence of the letter was that payments could not be made because the letter had been signed by DG Damith Kumarasinghe against whom trade union had been initiated by the Engineers’ Union of the CEB and further questioned the GM of the CEB about the forwarding of such a letter. The Committee was of the opinion that such a letter was illegal since the GM had sent the said letter not as a leader of engineering trade unions but as the GM and the defaulting of a legal payment was a matter of grave concern.
Further, the Committee having inspected the letter dated 21.05.2018, observed that it had been signed by the authorized signatory and rejected the explanation made to the Committee by the GM of the CEB and stated that the content of the letter dated 13.07.2018 were at variance with the above explanations thereof.

Subsequently, the GM of the CEB, making an explanation again on the letter in question admitted that the letter was also based on the trade union action initiated by the engineering trade unions of the CEBB.

Thereafter, another letter had been forwarded and told the Committee that action was being taken to make the payments.

Upon being questioned again by the Committee, the reasons cited by the Chairman and the GM of the CEB for the non-settlement of the relevant payments were contradictory regarding which the Committee expressed its displeasure.

Further, the Committee emphatically stated that it was not at all in agreement with the request made through this letter and warned that this could set a wrong precedent to other public sector institutions as well.

**Recommendations**

i. Submitting to the Committee within 07 days, the letters sent to the CEB by the PUC without the signature of a competent authority.

ii. Paying regulatory income taxes and other statutory payments irrespective of the reasons cited by the Chairman and the GM of the CEB.

**Reporting the current status and the progress**

- By letter No. ම.ඉ/පි.ද.ක්.රි.ක්.රා/15 dated 13.09.2018 of the Chairman of the CEB, the letters indicated in the above recommendation i have been submitted to the Committee.

Further, what has been conveyed from the above letter of the GM is that the payments cannot be made “immediately” due to ongoing trade union action and not that the levy cannot be paid and as some trade unions were deeply unhappy about the delay of nearly one year for the approval of the long term generation plan of the CEB (2018-2037) by the PUC, that the management had to be sensitive to such practical concerns.

- The letter of the Attorney General (Annexure 17) dated 24.08.2018 stating that the measures adopted by the PUC were faulty too was submitted with the above letter.

- Further, the approval of the Board of Directors for the payment of levy has been secured since the CEB had received the relevant responses for additional inquiries on the invoices submitted by the PUC, and by
letter No.Ř.ජෙ.කෝ.15/3/2018 dated 13.09.2018 of the Chairman of the CEB, it has been stated that the payment will be made within the next few days.

05. **ACE Power –Embilipitiya**

Though the agreement in respect of ACE Power –Embilipitiya which was entered into for the purchase of power for 10 years had expired, the Committee questioned the purchase of power from the said plant without taking it under the CEB and without adopting tender procedure.

The Secretary of the Ministry of Power and Renewable Energy submitted the following matters concerning the Embilipitiya power plant to the Committee.

i. Agreement had been signed for the purchase of electricity from the Embilipitiya power plant for a period of 10 years,

ii. The agreement expired in the year 2015 and as the plant could be used for a further period of time, approval of the government was received for further purchases,

iii. Accordingly, a valuation was obtained from the government valuer, whose valuation was Rs. 2,370 Million and the value submitted by the owner of the plant was $ 17 Million (Rs 2,635 Million) and the difference was approximately Rs. 300 Million and though negotiations were held, the owner was not agreeable to transfer the plant for the valuation made by the government valuer,

iv. Consequent to this situation being conveyed to the cabinet of ministers, a temporary approval had been granted for the purchase of electricity for a period of 6 months until action was taken to acquire the said plant, taking into account the electricity requirement of the southern province.

v. Following discussions with the owner, the agreement was renewed on two occasions, initially for one year up to 2016 and subsequently up to year 2017,

vi. During this period, the policy of government to stop private purchases and establish new power plants by the government underwent a change and under the new policy it had been decided to not purchase power plants but only the electricity and there was a recommendation by the CEB that it was advisable to extend the Power Purchase Agreements instead of purchasing power and as a result the agreement was extended by another 3 years with effect from April 2018.

Recommendations

Submission of the following reports to the Committee.
i. Original agreement for the Power Purchase Agreements

ii. Documents relating to the extension of the original Power Purchase Agreements

Reporting the current status and the progress

i. A detailed report with the above documents has been submitted with letter No. නි.සා.ක්‍රි.රි.ප්ර.15 dated 13.09.2018 of the Chairman of the CEB. (Annexure 18)


During the discussion about the Embilipitiya power plant, the Committee inquired about the statement made by the Secretary of the Ministry of Power and Renewable Energy to the effect that the Power Purchase Agreement was extended for a further period of 03 years from April 2018 on the recommendation of the CEB.

It was disclosed that the recommendation report whether to purchase this plant for $ 17 million or extend the PPA for another three years has been prepared and that its recommendations were as follows.

<table>
<thead>
<tr>
<th>Computation</th>
<th>Net Present Value (NPV) of the Capacity Charge payable within three years</th>
<th>Rs. 11.92 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Present Value (NPV) of the Capacity Charge payable within five years</td>
<td></td>
<td>Rs. 18.24 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recommendations submitted</th>
<th>i. The extension of agreement is advantageous, if power is purchased from this plant for less than 3 years.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ii. The purchase of the plant is advantageous, if power is purchased for more than 3 years</td>
</tr>
<tr>
<td></td>
<td>iii. If agreement is entered into for 5 years, acquisition of the plant to the CEB at the expiry of the contracted period without a payment.</td>
</tr>
</tbody>
</table>

It was further stated that in line with these recommendations, the PPA was extended for 3 years.

Accordingly,

i. The Committee explained that Rs. 76 million had been paid monthly with Rs 1.29 per unit as Capacity Charge in purchasing power from the plant and
when computed for three years that value is Rs. 2,736 million which was higher than Rs. 2,635 million for which the owner agreed to sell the plant and that the CEB would have to pay Rs. 2,736 million as Capacity Charge alone for the 03 year period.

ii. The Committee also stated that the Annual Report of the institution which own the plant had revealed that it had posted a profit of Rs. 1.1 billion in 2016/2017 through the sale of electricity of the Embilipitiya plant.

iii. The Committee expressed strong displeasure over the payment of an amount higher than the selling price of the power plant as Capacity Charge alone as a result of extending the PPA for a five year period on 03 occasions without purchasing the power plant when it had been recommended that the purchase of the power plant was advantageous if the PPA was to be extended for more than three years.

07. **Feasibility of purchasing power through other alternative sources other than the Embilipitiya power plant**

The Committee questioned whether there had not been any other alternative of purchasing electricity through another source without entering into an agreement for three years with this power plant in the backdrop of paying Rs 16,704 Million for the purchase of electricity from 06.04.2016 to 31.12.2017.

The Secretary of the Ministry of Power and Renewable Energy stated that having considered the demand for power in the Southern Province, attention was paid to the Embilipitiya and Matara power plants whose PPAs had ended and the unit cost of the Matara power plant was Rs. 23/- and the unit cost of the Embilipitiya power plant was Rs. 22/-

The Committee insisted that since the unit cost had been estimated at Rs 22 and Rs. 23/- on the basis of agreements, the methodology for determining the price should be a method acceptable to all and auditable.

Further, the Committee queried as to why the recommendations for the construction of power plants at the Hambantota or Galle harbours as set out in the power generation plan were not implemented, if a power requirement for the Southern Province had arisen.

The Secretary of the Ministry said that the approval was denied by the Ports Authority for the construction of a power plant in Hambantota and arrangements were being made for the construction of a power plant in close proximity to the Galle harbour.
**Recommendations**

i. Submission of a report to the Committee inclusive of the following matters whether an alternative was available to obtain electricity from another source instead of extending the PPA for three years.
   - Whether an alternative was available/ not available;
   - If available, what the alternatives were;
   - The cost thereof;
   - The reason for purchasing electricity therefrom;

ii. Providing a copy thereof to the Auditor General.

**Reporting current status and progress**

i. A detailed report inclusive of details of the alternatives available for obtaining electricity from another source instead of extending the PPA for three years and the cost thereof was submitted through letter No. නි.සා/කරි.රි/පර/15 dated 13.09.2018 of the Chairman of the CEB

**08. Determining the price of purchasing electricity and extending Power Purchase Agreements (PPA) without calling for tenders**

Inquiring whether there are bulk consumption suppliers providing electricity to the CEB.

In response to this, the Secretary of the Ministry of Power and Renewable Energy said that there were about 500 such registered suppliers from who a unit was purchased at Rs. 36/- and had it not been for the Embilipitiya plant, those units too had to be purchased at Rs. 36/-.

However, the Committee stressed that according to the existing law, if power was purchased from a private registered supplier, such purchases could only be made through tender procedure and added that these purchases carried out without calling for tenders were illegal.

The Secretary of the Ministry of Power and Renewable Energy said that in terms of the Electricity Act, electricity could be purchased from a registered private supplier without calling for tenders from power plants that existed before the year 2009. He further stated that this exemption had been granted in purchasing electricity from the power plants that were in existence before the Act came into force.

Having studied the legal provisions of the Sri Lanka Electricity Act No. 20 of 2009, the Committee was of the opinion that the Secretary of the Ministry had misunderstood the provisions of the Act and the essence of the provisions was that
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

‘tenders shall not be called only in respect of, Power Purchase Agreements that existed at the time of this Act came into force and if power is to be purchased again at the expiry of such agreements, new agreements should be signed having called for tenders’.

Further, the Secretary of the PUC, according to whose opinion the PPAs could not be extended without calling for tenders added that the process adopted by the Secretary to the Ministry was illegal in terms of the Electricity Act.

Recommendations

i. Formulating a transparent method in regard to how the unit price is determined in purchasing electricity from private suppliers.

Reporting Current Status and Progress

In response to this matter, it has been stated through the letter No. млн./щ.щ. шш. шш. щ.ш/15 dated 13.09.2018 of the Chairman of the CEB that-

i. bulk consumers who purchase electricity in bulks keep stand by generators in their institutions to be used in an emergency and when these generators are operated continually having connected them to the national grid, certain technical issues could arise,

ii. a price for electricity produced by such consumers or generators should therefore be determined by a Technical Evaluation Committee only during times when there is a shortfall of electricity,

iii. Action is being pursued as of now to appoint a Technical Evaluation Committee to study as to how this price should be determined and prepare a report.
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Annexure 16

Your ref: PUC/CP/16/LIC/CEB/09  My ref: GM/542  Date: July 13, 2018

The Chairman
Public Utilities Commission of Sri Lanka
6th Floor, BOC Merchant Tower
No.28, St, Michael’s Road,
Colombo 3.

Dear Sir,

Payment of Annual Regulatory Levy

This is with reference to the letter from PUCSL on the above dated 2018-05-21 requesting the payment of the Regulatory Levy. As already informed to you with a copy to me, CEB Engineers Union (CEBEU) had declared a non-corporation action from 8th May 2018 with Mr Damitha Kumarasinghe the Director General of PUCSL at the time. As a result, your above titled letter, which was sent under the signature of Mr Damitha Kumarasinghe, has been returned to me by licensee staff who are members of CEBEU citing the same has been signed after their commencement of the TU action.

Thus, please be kind enough to note that this office has no means to process your payment request immediately unless CEBEU withdraws the TU action or the invoice is sent again under the signature of the duly appointed new Director General of PUCSL.

Further, we have seen recently that letters from the commission are being regularly sent under the signature of officers who had signed on behalf of the Director General. The letters have not even indicated the name of the signatory, which is the standard protocol of external correspondences (as per chapter XXVIII of the Establishment code).

As you may recall, you as the chairman of the commission had informed us previously (and rightly so) that all important communication must be signed only by the authorized person as stated in the license. As the relevant addressee to do communication with CEB as per license is the Director General of PUCSL, we shall be thankful if you could make early arrangements.

OFFICE OF THE GENERAL MANAGER
Third Floor, No. 50, Sir Chittampalam A. Gardiner Mawatha,Colombo 00200, Sri Lanka.
Tel: +94 11 232 0953/5340 / Fax: +94 11 232 3935| e-mail: gm@ceb.lk | www.ceblk
to duly appoint a Director General (if such position is vacant at present) and send all communication with us only under his/her signature, thus complying with the respective license conditions.

Yours faithfully

CEYLON ELECTRICITY BOARD

[Signature]

Eng. A.K. Sanumarasinghe
General Manager

Responsible person under Licenses EL/GB/09-001; EL/T/09-002;
EL/D/09-003; EL/D/09-004; EL/D/09-005; EL/D/09-006;

Copy:
Chairman CEB - Fips
Secretary MOP&RE - Fips
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Annexure 17

General Manager,
Ceylon Electricity Board,
3rd Floor, No. 50,
Sir Chittampalam A. Gardiner Mawatha,
Colombo 2.

Legal Opinion on the Decision by the Public Utilities Commission of Sri Lanka on Least Cost Long Term Generation Expansion Plan 2018 - 2037

I refer to your letters dated 08th August, 2017, 07th June, 2018, 17th July, 2018 and the consultation held on 25th May, 2018 with Mr. A.K. Samarasinghe—General Manager; Mr. N.C.K Herath—Additional General Manager, Mr. J. Nanthakumar—Deputy General Manager (TGP), Mr. G.J Aluthge—Deputy General Manager (AMTE), Mr. Lakshitha Weerasinghe—Chief Engineer (Tariff), Ms. A.R.K. Wickremaratne—(Actg.) CLO and Mr. K.H.A. Kaushalya—Electrical Engineer (GP) on the above subject.

I have perused the material submitted by you and by the Public Utilities Commission with their letter dated 08th June, 2018. I have also considered the information provided by the Secretary, Ministry of Power and Renewable Energy and the officials of the Public Utilities Commission at the discussion held on 1st June, 2018.

The Public Utilities Commission (hereinafter ‘PUCSL’) by the letter dated 08th June, 2018 has stated that the revisions made by the PUCSL to the Least Cost Long Term Generation Expansion Plan 2018-2037 were based on comments received at a public consultation permitted under Sections 3(k) and 43 (8) of the Electricity Act No. 20 of 2009 as amended by Act No. 31 of 2013 and Section 17 (b) of the PUCSL Act No 35 of 2002. It has also been submitted by the PUCSL that the said consultations were initiated by public notice as well as by communications directed to selected stake holders.
Section 3 (k) of the Sri Lanka Electricity Act and Section 17(b) of the PUCSL Act contain provisions which are virtually identical and refer to the general authority of the PUCSL to engage in consultation with any person or group who would be affected by the decisions of the PUCSL. Section 43 (8) of the Sri Lanka Electricity (Amendment) Act No. 31 of 2013 defines the ‘Least Cost Long Term Generation Expansion Plan’ (hereinafter LCLTGE). 

The Sri Lanka Electricity Act No. 31 of 2013 had been enacted subsequent to the Public Utilities Commission of Sri Lanka Act No. 35 of 2002. The Sri Lanka Electricity Act is a special law dealing specifically with the regulation of the electricity sector.

As such, where matters relating to the regulation of the generation, distribution, supply and use of electricity are concerned the provisions of the Sri Lanka Electricity Act will prevail over the provisions of the PUCSL Act. Consequently, Section 17(b) of the PUCSL Act will not apply where there is any inconsistency with any specific provision of the Electricity Act.

Section 3(k) of the Sri Lanka Electricity Act provides in general, that the PUCSL may consult any person or group of persons affected by its decisions. This section is expressly stated to be “subject to the provisions of” the Sri Lanka Electricity Act. The preparation, amendment and approval of the LCLTGE are specifically dealt with under the provisions in Section 43 of the Sri Lanka Electricity Act No. 31 of 2013. Accordingly, the CEB as the Transmission Licensee and the PUCSL are required to act in accordance with the specific provisions of Section 43 in finalizing the LCLTGE.

Section 43 (8) of the Electricity Act No. 31 of 2013 sets out that the LCLTGE is to be prepared by the Transmission Licensee, i.e. the CEB. The plan which is so prepared could be amended and approved by the PUCSL only on the basis of submissions made by the licensees (emphasis added). The provisions in Section 43 (2) of Act No. 31 of 2013 sets out that the term “licensees” refers to distribution and generation licensees.

Accordingly, the PUCSL has no statutory power to hold public consultations in the course of the preparation of the LCLTGE.

It is further noted that the PUCSL has carried out material revisions to the LCLTGE 2018-2037 based on the referred purported consultations. However, the provisions in Section 43 of the Electricity Act of 2013 only permit amendments based on submissions made by the identified group of licensees (emphasis added).
In view of the above, I am of the opinion that the provisions of the PUCSL and Electricity Act do not permit the process of consultation and revision engaged by the PUCSL in respect of the LCLTGEIP 2018-2037.

Milinda Gunetilleke
Snr. Deputy Solicitor General

Sgd/
Sanjay Rajaratnam, PC
Snr. Additional Solicitor General
For Attorney General.

CC:

1. Secretary
Ministry of Power & Renewable Energy,
No. 72, Ananda Coomaraswamy Mawatha,
Colombo 07.

2. Chairman
Public Utilities Commission of Sri Lanka
6th Floor,
BOC Merchant Tower,
St Michael’s Road,
Colombo 03.
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**National Water Supply and Drainage Board**
(Ministry of City planning, Water Supply and Higher Education)

Date of inquiry: 08th August 2018

**Matters discussed**

01. **Action Plan-2018**

It was observed that the Action Plan had not been updated even though it has been prepared and it had not been submitted for approval till August 2018.

**Recommendations**

Submission of the approved Action Plan to the committee within a week with a copy of the approval of the Board of Directors.

**Reporting the current status progress**

Reports have not been submitted.

02. **Approved Scheme of recruitment**

It was observed that the staff of the institution was 10256 and it was inquired whether the scheme of recruitment had been followed in that regard.

**Recommendations**

i. Submitting a report to be sent to the ministry and the Management Service Department for the approval of the scheme of recruitment to the committee within a month.

ii. Not recruiting any employee until the scheme of recruitment is duly approved.

**Reporting the current status and progress**

- Reports have not been submitted.

03. **Board of Directors**

The committee inquired about the absence of the representation of a Ministry official in the Board of Directors.

The Chairman stated that as per the provisions of the Act a Ministry official cannot be appointed to the Board of Directors.
Recommendations

i. Educating the Cabinet of Ministers of that a Ministry official should be appointed to the Board of Directors even by amending the relevant Act.

ii. Nominating a Ministry official to the Board of Directors on observation basis to represent the ministry until the Act is amended.

Reporting the current status and progress

i. It has not been reported.

04. Bringing the Operations under the Deputy General Manager (Finance)

It was observed that a number of recommendations including bringing the financial operations of the institution under the Deputy General Manager (Finance) from the commercial division were given by the committee on 04.07.2016 and the recommendation that it should be informed to the committee if the above recommendation cannot be implemented too has not been implemented. An officer of the Ministry making an explanation stated that only the matters arising out of the steps from printing bills to collecting money should be vested with the finance division.

The Chairman stated that the recommendations could not be implemented as there were practical difficulties in implementing them.

The committee expressed its severe displeasure over the non-submission of the above report or any document relating to this matter to the committee or the Auditor General’s Department.

Recommendations

i. Submitting those documents to the committee within a week.

ii. Submitting the documents that sought the opinion of the treasury about the removal of the financial activities of the commercial division from that.

iii. Discussing with the treasury about this matter again.

iv. Intervening in the process of separating the financial activities from the commercial division and solving that.

Reporting the current status and progress

i. Not reported.
05. **Kandy North and Pahatha Dumbara Water Project**

Inquiring on the Kandy-Pahatha Dumbara integrated Water Supply project it was observed that the Engineering estimate of the national Water Supply and Drainage Board for that was Rs.16,169.35 million and the contract value was Rs.24,790.24 Million and it was an increase of 53% than the local estimate and 229,608 U.S.Dollars (Rs.29,594,175) for removing 27 trees and Rs.2,003,400/= as custom charges had been set aside.

**Recommendations**

i. Submitting to the committee the reason for including custom charges when cutting and removing trees.

**Reporting the current status and progress**

i. Reports have not been submitted.

06. **Resettlement**

It was observed that in constructing two houses for resettlement a sum of 115,962 U.S.Dollars for constructing one house and Rs.1,011,870 as custom charges had been set apart and accordingly the contract had been offered on an estimate of Rs.15.96 million and a sum of 1,470,033 U.S.Dollars and Rs.12,905,856 as custom charges had been set apart for breaking and removing stones. The committee expressed its utmost displeasure over the failure of the officials to submit any relevant document or information in this regard.

**Recommendations**

i. The Auditor General was directed to check these two matters and submit a report to the committee within a month.

**Reporting the current status and progress.**

i. Reports have not been submitted.

07. **Purchasing four Cabs**

Even though the estimated value for the purchase of four Cabs for the Visal Dambulla project was Rs.56.05 million the contractor had supplied four Cabs for Rs.13.32 Million. But owing to a fault of the institution the institution had sustained a loss of Rs.42.73 Million by paying the full estimated amount.

The committee was not satisfied with the response of the institution in this regard and expressed its grave displeasure over the methodology that had been adopted.
The officers of the Treasury brought to the notice of the committee that a vehicle ordered in connection with a JAICA project in 2012 could not be released from the customs owing to the non-receipt of the approval of the Treasury. The Chairman stated that there was no mention in any circular at the time of the importing of this vehicle that this vehicle (SUV sports utility vehicle) cannot be imported.

**Recommendations**

i. Submission of a full report in this regard.

ii. Making a request to the Treasury through the secretary to the Ministry seeking the approval to release this vehicle from the customs as it cannot be released according to the current circular though it was imported as per the circular available at that time.

**Reporting the current status and progress**

i. The report has not been sent.

**09. Matters arising out of the Audit queries**

i. It was observed that Rs.21.25 million which is 30% of the value of a land which had been estimated at Rs.71.5 million under a waste water project in Galle, had been paid to the owner of the land without considering the ownership.

ii. A debit balance of Rs.230 million had been written without a proper approval of the Treasury.

iii. A debtor balance of Rs 1419.43 had remained for three years without recovering.

iv. An income of Rs.79.97 million earned from stones dug at two project sites had not been transferred to the government income.

v. An accumulated sum of Rs.54,93 million paid to the contractors as advance during 2000-2013 had not been recovered even at the end of the year.

vi. The value of the advance paid to the contractors over three years had been Rs.683 million as at 31.12.2017.

**Recommendations**

- The committee expressed its displeasure over the overall picture of the institution and directed the treasury representative to act with more responsibility at the Audit and management Committee.
10. Recruiting Chemists

The committee inquired whether the internal candidates had been denied the opportunity of applying according to the notice published to recruit chemists.

The Chairman stated that 60% of external candidates and 40% of internal candidates are recruited and chemistry graduates from outside and persons with experience as laboratory assistants from within the institution are recruited and the applications from internal candidates were rejected as they did not possess the necessary qualifications.
Road Development Authority
Matters Discussed

01. Failing to appear before the Committee

The Committee paid attention to the officers named below who failed to appear before the Committee without obtaining proper approval.

i. Mr. A.T.L. Samarasinghe  Member of the Board of Directors
ii. Mr. S.S.P. Ratnayake  Member of the Board of Directors
iii. Mr. A.L.M. Nizar  Project Director
iv. Mr. Y. Dharmarathnam  Provincial Director (Eastern)
v. Mrs. P.A.S.M. Marasinghe  Provincial Director (North Western)
vi. Mr. Upul S. Bandara  Director, Maga Neguma Road, Construction and Machinery Company Ltd.

vii. Mr. Ranjith Kuruppu  Director, -do-
viii. Mr. B.U. Perera  Director, Maga Neguma Emulsion Pvt. Ltd.
ix. Mrs. B.G.K. Jayasinghe  Director, -do-
x. Mr. R.V.K. Srinath de Silva  Director, -do-
xi. Mr. D.M.P.R. Kumara Bandara  Director, -do-
xii. Mr. Chaminda Kularathna  Director, -do-

Recommendations
i. The secretary to the Committee on Public Enterprises was instructed to summon the relevant officers to appear before the committee on 24th August 2018 at 2.00 p.m.

02. Lands owned by the Authority

The Committee discussed at length about the lands owned by the Road Development Authority and the following matters were disclosed in the course of that discussion.

   i. That the total area of the lands owned by the institution was 1026 acres according to the reports of the Auditor General
   ii. That it was 849 acres according to the reports of the Road Development Authority
   iii. That the value of the relevant lands has not been mentioned in the notes to the accounts of the Authority.

Recommendations

   i. Taking the following action within 02 months, with the assistance of the Auditor General.
   ii. Conducting a census about the land owned by the Road Development Authority
   iii. Conducting a current valuation of all lands.
   iv. Incorporating that in the accounts of the Authority.

Reporting on the current situation and the progress

i. The Committee has been informed by the letter of the Chairman of the Road Development Authority bearing No. RDA/DG/COPE/2018/08/09 dated 17.09.2018 that the implementation of these recommendations had been commenced with the assistance of the Auditor General.

03. Vehicles owned by the Authority
The Committee inquired about the vehicles that had been registered at the Department of Motor Traffic under the Road Development Authority but not mentioned in the assets register of the Authority and the registration of vehicles owned by the Authority in other person’s names.

The Chairman of the Road Development Authority stated that vehicles auctioned a long time ago still remaining registered in the name of the Authority had caused this situation and the necessary steps would be taken to look into this matter and rectify it.

The Committee also paid its attention to the provision of vehicles owned by the Road Development Authority to the Ministry of Highways and Road Development and other institutions.

**Recommendations**

i. Sending separately listed information in this regard to the Committee.

ii. Sending the following reports to the Committee.

    ➢ A list of the vehicles released to the Ministry of Highways and Road Development and other institutions
    ➢ A detailed report including the names of the persons using them at present

**Reporting the current situation and the progress**

i. Has not been reported

**04. Cadre**

The Committee inquired about releasing 211 members of the staff to project management units while there were 28 vacancies in the approved cadre for the engineering services department by 31.12.2017.

The Chairman of the Road Development Authority stated that engineers of the Authority were deployed for project activities as well because the
engineers of the Road Development Authority possessed the knowledge required for project activities.

**Recommendations**

i. Providing to the Committee within 02 weeks a report including the names and details of the projects in which the relevant 211 officers are employed.

**Reporting the current situation and the progress**

i. The report including the details of the engineers who had been released to projects has been submitted to the Committee through the letter of the Chairman of the Road Development Authority bearing No. RDA/DG/Cope/09.08.2018 dated 10.09.2018.

**05. Loan obtained from the National Savings Bank**

The Rs.28 billion loan obtained from the National Savings Bank by the Authority had been subjected to discussion by the previous Committee as well and sending a report on the manner that amount was spent had been recommended. The Committee discussed about the lack of comprehensive details in the report sent by the Authority about the manner in which the said amount was spent.

**Recommendations**

i. Sending to the Committee within 02 months a detailed report about the manner in which the following amounts were spent.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<td>For the Ministry</td>
<td>Rs.3,740 million</td>
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<tr>
<td>For expansion and improvement of the roads under the Road Development Authority</td>
<td>Rs.14,079 million</td>
</tr>
<tr>
<td>For 22 project management units</td>
<td>Rs.6,140 million</td>
</tr>
</tbody>
</table>

**Reporting the current situation and the progress**
i. In line with the above mentioned recommendation of the Committee, the detailed report on the manner in which Rs.14,079 million out of the loan obtained from the National Savings Bank was spent for expansion and improvement of the roads under the Road Development Authority has been submitted to Committee through the letter of the Chairman of the Road Development Authority bearing No. RDA/DG/Cope/2018.08.09 dated 10.10.2018.

ii. Detailed report on Rs.3740 million spent on the Ministry and Rs.6140 million spent on 22 project management units out of the loan obtained from the National Savings Bank has been submitted to Committee through the letter of the Secretary to the Ministry of Highways and Road Development bearing No.MH & RD/HWY/ACC/13/2018/08 and dated 17.09.2018.

06. **Contractors with weak performance**

The Committee pointed out that the performance of the following contractors connected to the I-Road project implemented in collaboration with the Asian Development Bank remained at a very low level.

i. K.B.Ebert & Sons Holding (Pvt.) Ltd.

ii. Ranken Railway Construction Group Company (Pvt.) Ltd.

iii. V.V.Karunarathna & Company

iv. Olympus Construction (Pvt) Ltd in joint venture with Ranee Constructions

The following matters were disclosed in inquiring about the relevant institutions.

i. That those institutions had been categorized as Non Performance Contractors according to the criteria of the Asian Development Bank.

ii. That the aforesaid institutions had been black listed within the Authority.

iii. That Sri Lanka Institute of Development Administration (SLIDA) had been informed about their performance.
iv. That it was expected to obtain the approval of the Asian Development Bank to terminate the relevant tender agreements.

The Committee was of the view that the situation could be solved by submitting to the Cabinet a proposal prepared citing institutions with favourable performance and those with weak performance separately and getting that approved.

The Committee decided that taking the said measure was appropriate because of the low performance in the contracts awarded to the said contractors, to avoid the delay in awarding them to other contractors following the proper procedure and to prevent the increase of expenditure.

Recommendations

i. Renegotiating with Asian Development Bank mentioning the recommendations made on 09.08.2018.

ii. Awarding the contracts that remain at a very low level without completion to the contractors who have shown favourable performance.

Reporting the current situation and the progress

i. Progress has not been reported.

07. Maga Neguma Emulsion Production Company (Pvt) Ltd.

The Committee expressed its displeasure about the Board of Directors including the Chairman of the Maga Neguma Emulsion Production Company Pvt Ltd not participating in the Committee on Public Enterprises and paid special attention to the following matters.

i. Appointing a new private auditor – When the Committee inquired about this matter, the following information was disclosed.

➢ That the new private auditor had been appointed at an annual general meeting by taking a vote.
➢ That the Road Development Authority and the Ministry had 03 votes and Maga Neguma Emulsion Production Company Pvt.Ltd had 03 votes.

➢ That one director representing the Authority had retired and that another director had not been appointed in his place.

➢ That the Chairman of Maga Neguma Emulsion Production Company Pvt Ltd is entitled to a casting vote in addition to his vote.

➢ That the Chairman of Maga Neguma Emulsion Production Company Pvt Ltd votes twice accordingly.

➢ That this casting vote is used as per Companies Act No.17 of 1982.

- The Committee was of the view that being entitled to two votes as one vote as the Chairman of the Company and another as a shareholder was an extraordinary situation. It was pointed out that the Companies Act No.07 of 2007 is in force and that the provisions of Companies Act No.17 of 1982 stand repealed.

ii. Government ownership of Maga Neguma Emulsion Production Company Pvt.Ltd

The Committee inquired about the minimal attention paid by the Road Development Authority to the ownership of Maga Neguma Emulsion Production Company Pvt.Ltd. and the Authority stated the following points.

➢ That there were two cases pending in relation to the affairs of Maga Neguma Emulsion Production Company Pvt.Ltd.

➢ That an investigation is being conducted by the Criminal Investigations Department in that regard.

Recommendations
i. Investigating about the legality of the being entitled to two votes as one vote for the Chairman of the Company and another as a shareholder in relation to the Companies Act and the constitution of Maga Neguma Emulsion Production Company Pvt Ltd. and producing evidence/documents to establish that 02 votes exist in that manner.

ii. Submitting to the Committee within one week a report citing the date of retirement of the member of the Board of Directors who retired and the reason for retirement.

iii. Obtaining from the Registrar of Companies a report including a clarification about the validity of the constitution of Maga Neguma Emulsion Production Company Pvt Ltd. and about lack of registration under Companies Act No.07 of 2007.

iv. Obtaining a report through the Criminal Investigations Department about the current situation of the investigation about Maga Neguma Emulsion Production Company Pvt Ltd.

v. In relation to the ownership of Maga Neguma Emulsion Production Company Pvt Ltd., intervention by the Secretary to the Ministry and the Chairman of the Authority to establish ownership of the Road Development Authority.

**Reporting the current situation and the progress**

Current situation with respect to the aforesaid recommendations has been reported in the following manner.

i. Legal situation with respect to being entitled to two votes as one vote as the Chairman of the Company and another as a shareholder –

- That Maga Neguma Emulsion Production Company Pvt Ltd. had been incorporated during the period when Companies Act No.17 of 1982 was in force.
- That only registration of Companies that had existed up to then under the new Act has been done as per Companies Act No.07 of 2007.
• That the Company has continued act up to now according to the constitution that had been adopted at the inception of this Company, that the provisions of Companies Act No.17 of 1982 should apply for matters about which the constitution of the company is silent and that the Chairman of the Company can cast the second or casting vote in case of a tie as per Section 17 of the said Act on page 320 (Annexure 19)

ii. The officer who had been serving as an Additional Director General of the Authority was appointed as a Director of Maga Neguma Emulsion Production Company Pvt Ltd. as well with effect from 07.09. 2017 and he has resigned from the post of Director of Maga Neguma Emulsion Production Company Pvt Ltd. as he retired after completing age on 09.02.2018.

iii. The registration certificate of Maga Neguma Emulsion Production Company Pvt Ltd. as per Registration of Companies Act No.07 of 2007 has been submitted. (Annexure 20)

iv. Even though it has been informed that action would be taken in line with the advice of the Committee, progress has not been reported.

v. 08. Feasibility Study Report – Extension of the Southern Highway

It was revealed to the Committee that an accurate prediction regarding the income from the extension of the Southern Highway has not been done in the feasibility study report of the extension of the Southern Highway.

Recommendations

Summoning the relevant officers before the Committee on 18th September 2018 to discuss the matters that remain to be discussed in the note submitted by the Auditor General at the meeting of the Committee on Public Enterprises held in this regard on 09.08.2018.
Officers who failed to appear before the Committee without prior notice when Road Development Authority was summoned before the Committee on Public Enterprises on 09th August 2018 were summoned again and questioned on 18th September 2018.

The Committee met again on 18th September 2018 to discuss about the current situation in relation to the lands and vehicles owned by the Road Development Authority.

Matters discussed

01. Lands and vehicles owned by the Road Development Authority

Lands and vehicles owned by the Road Development Authority were discussed at length at the meeting of the Committee on Public Enterprises held on 09th August 2018.

The institution had agreed at that meeting to send the relevant details to the Committee within 03 months and the Committee inquired about the current situation in that regard.

Recommendations

i. Preparing an action plan including all the details of lands and vehicles requested by the Committee.

ii. Sending that to the Committee before 09th November 2018.

Reporting the current situation and the progress

i. Reports have not been submitted.

02. Audit Committee reports

Sending the minutes of the audit committee meetings held by the institution in 2017 to the Committee was recommended at the meeting of the Committee on Public Enterprises held on 09th August 2018.

Even though the institution had sent the minutes of the audit committee meetings responding to the said recommendation, in the process of examining those minutes it was disclosed to the Committee that the matters discussed had been mentioned but the decisions taken and the officers responsible for implementation of those decisions had not been mentioned.
**Recommendations**

i. Including the decisions taken after discussion and the officers responsible for implementation of those decisions in the minutes of the audit committee meetings.

ii. Sending those minutes to the Committee without delay.

**Reporting the current situation and the progress**

i. Minutes of the audit committee meetings have been submitted to the Committee.

**03. Maga Neguma Emulsion Production Company (Pvt) Ltd**

Maga Neguma Emulsion Production Company (Pvt) Ltd had not allowed the Auditor General’s Department to intervene for auditing its affairs and the Committee paid its attention to this matter.

It was stated by the Auditor General that the legal argument put forth by the relevant institution in that regard had been rectified by the Audit Act No.19 of 2018 and that there was no legal barrier for the Auditor General’s Department to audit Maga Neguma Emulsion Production Company (Pvt) Ltd with effect from 01st August 2018.

The Committee observed that the Chairman of Maga Neguma Emulsion Production Company (Pvt) Ltd. was entitled to a casting vote and it was disclosed that there was no legal basis for that. It was also pointed out by the Committee that a problem emerged with respect to the validity of decisions taken by the Chairman of Maga Neguma Emulsion Production Company (Pvt) Ltd by using that casting vote.

**Recommendations**

It was decided by the Committee to summon Maga Neguma Emulsion Production Company (Pvt) Ltd to appear before the Committee in due course.

**04. Extension of the Southern Expressway**

The Committee inquired which feasibility study report was the correct one as several feasibility study reports of the extension of the southern expressway have been submitted to the Committee.

It was revealed that the feasibility study report had been sent to the Secretary to the Ministry without referring it for the approval of the Board of Directors.
It was stated by the Secretary to the Ministry that such a situation had arisen because both the post of the Chairman of the Road Development Authority and the post of Secretary to the Ministry were held by the same person.

The Committee paid attention to the increase in the revised cost and it was disclosed to the Committee that it had been mentioned in the economic analysis section of the feasibility study report that the said report would not be acceptable if the expenditure of the project was not controlled.

Going through the feasibility study report, the Committee observed that the estimated price had reached the bid price after considerable revisions done from time to time.

Here, the Committee inquired whether there was a common method available for investigating the prices submitted by the contractors.

The method used for submission of prices by contractors was explained by the Secretary to the Ministry.

i. Once the relevant project proposal is handed over to the contractor, he would inform about the cost.

ii. That cost is submitted for observations of the Technical Evaluation Committee.

iii. Normally contractors prepare their expenditure estimates exceeding the engineering estimates by 20%.

05. Construction of roads within the country

The Committee inquired about carrying out the construction of roads within the country through other institutions even though the Road Development Authority had been established to act in relation to construction of roads.

The following matters were stated by the Chairman of the Road Development Authority in this regard:
i. That road construction affairs have been assigned to 14 other Ministries.

ii. That the Road Development Authority did not have control over those constructions.

iii. That allocations have been made through the budget for this purpose.

The Committee was of the view that certain problematic situations could arise as a result of carrying out this work through various institutions despite the existence of an institution responsible for such work.

**Recommendations**

i. Sending to the Committee the following information in relation to the 14 relevant Ministries.

   ➢ The extent of roads constructed by those ministries.
   ➢ The expenditure borne in that regard.
   ➢ The amount spent out of the budget for that purpose.

**Reporting the current situation and the progress**

i. Reports have not been submitted.

**06. Delay in the construction of the Central Expressway**

The Committee inquired about the delay of about 15 months that occurred in the construction of the Central Expressway.

It was stated by the Secretary to the Ministry that the discussions held in that regard had been concluded and that it would be possible to sign the relevant agreement by the following month.

The committee paid its attention to the feasibility study report of the Central Expressway.
**Recommendations**

i. Sending the feasibility study report prepared by China Harbour to the Committee.

**Reporting the current situation and the progress**

i. Reports have not been submitted

**07. Dispute Resolution Board**

The Committee paid attention to 02 issues referred to the Dispute Resolution Board in relation to the Southern Expressway.

i. Delay in providing land possession by the employer – Rs.988 million

Even though it is the responsibility of the Road Development Authority to release lands for carrying out the work in the contract after the agreements are signed by the contractors, it was disclosed to the Committee that the loss incurred to the contractor as a result of the delay in such transfer by the Road Development Authority was Rs.988 million.

The following matters were stated by the Secretary to the Ministry in this regard.

- That the determinations of the Dispute Resolution Board have not been accepted.
- That negotiating for a peaceful solution has taken place.
- That the contractor has not agreed to those conditions.
- That the issue has been referred for arbitration.
- That the institution has not agreed to make any payment up to now.

ii. Mixed Design for Concrete work- Rs.114 million +Interest

It was revealed to the Committee that the issue had cropped up in relation to the ratio of the material to be mixed in concreting roads and that the contractor had demanded an interest in addition to the loss he had to suffer and the Committee inquired about the current situation.
It was stated by the Secretary to the Ministry that no agreement had been reached to make any payment in that regard.

Annexure 19
14. The chairman may, with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

15. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded—

(a) by the chairman; or

(b) by at least three members present in person or by proxy; or

(c) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting.

Unless a poll be so demanded a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost and an entry to that effect in the book containing the minutes of proceedings of the company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn.

16. Except as provided in article 18, if a poll is duly demanded it shall be taken in such manner as the chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

17. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote.

18. A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs and any business other than that upon which a poll has been demanded may be proceeded with pending the taking of the poll.

19. Subject to the provisions of the Act, a resolution in writing signed by all the members for the time being entitled to receive notice of and to attend and vote at general meetings, (or being corporations by their duly authorized representatives) shall be as valid and effective as if the same had been passed at a general meeting of the company duly convened and held.
Annexure 20
Sri Lanka State Engineering Corporation

(Ministry of Housing Construction and Cultural Affairs)

Date of inquiry: 10th August 2018

Matters discussed

01. Staff

The Committee inquired about the existence of 581 vacancies on the staff and also about the fact that there were untrained employees and 75 security guards within the number of 314 excess employees.

Recommendations

i. Obtaining the approval of the Management Services Department for these posts

Reporting the current situation and progress

It has been informed through the letter No. SEC/F/FM/COPE /0 1( 2018 ) dated 21st November 2018 sent by the General Manager of Sri Lanka Engineering Corporation that the information of the staff has been submitted to the Management Services Department and action will be taken to inform the Committee once the decision of the said Department is received.

02. Procurement Plan

The Procurement Plan of year 2018, which had been approved by the Board of Directors had not been submitted.

Recommendations

The Procurement Plan should be submitted to the Committee within a week

Reporting the current situation and progress

i. The Procurement Plan has been submitted to the Committee through letter No. SEC/F/CH/COPE / 2018 /001 dated 07.09. 2018 sent by the Chairman of the State Engineering Corporation

03. Releasing Employees for the Services in other Ministries

The salaries of the employees who had been released to other Ministries should be reimbursed by the relevant institutions as per the Public Enterprises Circular
No.12 of the year 2003 and the Committee asked as to why a reimbursement had not been obtained for an amount of 3,810, 730 rupees that had been paid as salaries in the year 2018.

**Recommendations**

i. A report of the salaries paid to these employees by the relevant Ministries along with a comprehensive report of the duties assigned to them should be submitted to the Committee within a period of one month.

ii. Action should be taken to get approval for the number of excess employees having made a discussion with the Management Services Department and a report of it should be submitted to the Committee within a period of one month.

**Reporting the current situation and progress**

i. It has been informed through the letter No. SEC/F/CH/COPE /01(2018) dated 21.11. 2018 sent by the Chairman of the State Engineering Corporation that action has been taken to call back the employees whose salaries have not been reimbursed yet and plans have already been made to get allocations for the excess employees having obtained the approval of the Management Services Department.

ii. Though it has been informed through the letter No. 6/ 2/7 14 -Vol v dated 1st April 2019 sent by the Secretary to the Ministry of Housing, Construction and Cultural Affairs that a comprehensive report of the employees who have been released to the other institutions would be sent as the report sent by the Chairman of the State Engineering Corporation in that regard is defective, the aforesaid report has not yet been submitted.

**04. Releasing Employees during the Period of Election in the Year 2015**

Though the report which includes the methodology for charging from the Deputy General Manager an amount of 1,353,000 rupees and another amount of 626,000 rupees that had been paid to 98 employees, who had been released, as salaries and over time payment respectively, along with the decision of the Board of Directors in that regard had been submitted, the relevant amounts have not been charged and the Committee inquired the about it.

**Recommendations**

i. Taking action to charge this amount from the officers who should be responsible for the misappropriation of this amount of money
ii. Taking necessary legal action in that regard

iii. Reporting this incident to the Audit Commission

iv. Reporting all the details related to this matter to the Committee and the Auditor General within a period of one month

**Reporting the Current Situation and Progress**

i. It has been informed through the letter No. SEC/F/FM/COPE /01 (2018) dated 21.11.2018 sent by the Chairman of the State Engineering Corporation that the Board of Directors has taken a decision to dismiss one officer from service upon a formal disciplinary inquiry and issue warning letters against the employees who had been engaged in election propaganda and also against the officers who had signed the documents through which permission was given to them to work outside the place of work.

05. **Unsettled Advances**

Not taking legal action in regard to the advance payment balance of 378 million rupees, which has not been settled for a period of 4 years.

**Recommendations**

i. Identifying the institutions and the persons who delay the repayment of advances

ii. Obtaining the instructions of the Audit and Management Committee

iii. Formulating a methodology for it

**Reporting the Current Situation and the Progress**

The summary report which indicates the current situation (as at 30th June 2018) in regard to collecting the unsettled advances of the state Engineering Corporation as at 31.12.2015 has been submitted through the letter No. SEC/F/FM/COPE/01 (2018) dated 21.11.2018 sent by the Chairman of the State Engineering Corporation.

06. **Publicity, Promotion Expenses and Bonuses**

Making publicity and promotion expenses of 73 million rupees and granting bonuses of 20 million rupees against the objectives of the Corporation during the period from the year 2012 up to 2014.
Recommendations

i. Submitting to the Committee the minutes of the meeting of the Board of Directors in which the decision to make publicity and promotion expenses and grant bonuses was taken.

ii. Submitting the paying vouchers along with a report which includes the following particulars to the Committee and the Auditor General within a period of two years
   - The methodology adopted to select the publicity institution as per the aforesaid decision of the Board of Directors
   - The number of publicity Institutions from which tenders were called
   - The name of the publicity institution that was selected
   - Accordingly, the qualifications of the institution that was selected
   - The name of the owner of the selected institution
   - The experiences
   - The effect made to the performance through this

Reporting the Current Situation and Progress

The following documents have been submitted to the Committee in this regard through the letter No.SEC/F/FM/COPE /01(2018) dated 21.11.2018 sent by the Chairman of the State Engineering Corporation

i. The document which includes the decision of the Board of Director to pay bonuses in the year 2012, 2013, 2014 and 2015

ii. The document which provides an analysis of the publicity expenses of the Institution in which the major expenditure heads are categorized into 5 expenditure heads namely recruitment advertisements, procurement notices, notices of prefabricated product, notices of the commencement of projects and notices in regard to performance along with an explanation of the methodology adopted for selecting the publicity institution relevant for expenditure head.

iii. The effect made to the institution through it

07. The Amount due from Sri Lanka Cricket

i. Even though the amount due from Sri Lanka Cricket Institute was 818 million rupees as at 31st December 2015 the aforesaid amount has been indicated in the accounts of the said Institute as 568 million rupees.

ii. Getting this difference cleared by providing in writing all the details along with a project agreement of the Sri Lanka Cricket Institute.

iii. Even though the amount of 258,899,288 rupees due as at 30th June 2018 is indicated as value added taxes the said amount has not been collected.
**Recommendations**

i. As an inquiry has been made from the Inland Revenue Department in this regard, this should be recorded in accounts until the recommendations are received.

ii. Sending memoranda to Inland Revenue Department again.

**Reporting the Current Situation and Progress**

i. It has been informed to the Committee through the letter No.SEC/F/FM/COPE /01( 2018) dated 21st November 2018 sent by the Chairman of the State Engineering Corporation that a letter has been sent to the Director of the Public Enterprise Department to educate him in this regard.

**08. Making Donations without Getting Approval**

It was inquired about the donations of 2.7 million rupees made during the period of from the year 2012 up to 2016 without getting approval.

**Recommendations**

i. An analytical report should be submitted to the Committee and to the Auditor General within a period of one month as the report that has been submitted in this regard is not sufficient.

**Reporting the Current Situation and the Progress**

i. It has been informed through the letter No. SEC/F/FM/COPE /01(2018) dated 21.11. 2018 sent by the Chairman of the State Engineering Corporation that this report is still being prepared by entertaining paying vouchers and written evidence in that regard and it is proposed to be submitted to the Committee in the future.

**09. The Losses Incurred from Projects**

The losses incurred from 127 projects carried out during the year 2011 up to 2014 incurring costs that exceeded the amount of the contract was 1574 million rupees.

**Recommendations**

i. Identifying the shortcomings of the projects that have been completed by now.

ii. Identifying the progress of the projects that have already been commenced.
iii. Submitting a comprehensive report of the projects that are being carried out incurring losses.

Reporting the Current Situation and the Progress

i. Has not been submitted.
Annexure 21

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Land Reform Commission

(Ministry of Land and Parliamentary Reforms)

Date of inquiry: 23rd August 2018

Matters Discussed

01. Establishing a Special Task Force

The Commission has not yet taken action to implement the recommendations given by the Committee in the last meeting to establish a Special Task Force with the coordination of the Ministry of land to systematically document approximately 1 million acres of lands, which belong to the Commission.

The Secretary to the Ministry stated that necessary action is being taken to implement a district wise data system in this regard and the pilot program of this was commenced in Galle district.

Similarly a few issues that the Land Reform Commission is faced up with at present were also identified.

i. Even though a detailed report has been prepared having identified more than 75% of the 1,015,000 acres of land that belong to the Land Reform Commission, only the boundaries of the lands are known and the lands have not been surveyed.

ii. The original legal right of the lands have been conveyed based on a document in which only the plots of lands are named without surveying the lands.

iii. Assigning the management of 580,000 acres of land out of the 1,015,500 acres of land that belong to the Land Reform Commission, to the Janatha Estate Development Board and State Plantations Corporation.

iv. The State Plantations Corporation and Janatha Estate Development Board have conveyed the aforesaid lands to plantation companies on a long term lease without surveying the said lands (For example plantation companies are enjoying the possession of additional 6000 acres of land in Kegalle District in addition to the lands conveyed to them as mentioned above and out of the 497 hectares of land in Raththota Omalpagala estate only 97 hectares of land have been conveyed in a proper manner)
v. Issues that surface when lands are to be conveyed due to the fact that only the 3rd or 4th generation of the legal owners of the lands live at present (For example as far as the lands that belong to the Land Reform Commission in Embilipitiya are concerned a portion of the said lands are claimed by the Mahaweli Authority and another portion is claimed by the government).

vi. Non availability of coordination between Land Reform Commission and the Department of Land Settlement.

vii. The lands which were declared to be owned by the Land Reform Commission in the year 1972 had not been developed for a long period of time and in that perspective a considerable extent of lands in the Hillside areas especially in Rathnapura were acquired under Residual Forest Reserve basis through a circular issued by the Forest Conservation Department in the year 2006 and 50 acres of lands have been reserved having posted demarcation posts making the original land owners unable to have access to the said lands.

viii. Even though the Land Reform Commission had listed lands having identified them problems existed in regard to the entitlement of those lands.

ix. A considerable extent of some more lands, which had not been declared, existed and several persons stated that they have rights and entitlement to the said lands and even title deeds have been prepared having developed them.

x. The lands which were declared to be owned by the Land Reform Commission have not been registered in land registry and the aforesaid lands have been conveyed by the original owners to heirs through deeds of transfer.

**Recommendations**

Taking the following action to get the following problems solved.

i. Surveying the total extent of lands declared by the Land Reform Commission through a bill of survey exercising the powers vested in the Commissioner of Land Settlement with the assistance of the Department of Surveys having informed the relevant Ministers and the Secretary to the Ministry.

ii. After the survey of lands, an opportunity is provided to prove the title to them and the problems related to the title of lands are solved having searched the folios of lands in the land registry.
iii. These lands should be identified in the field collectively by State Plantation Corporation, Department of Wildlife and the Department of Forest Conservation, Janatha Estate Development Board and all the relevant plantation companies that claim title to the lands at present not only by the land Reform Commission.

iv. Formulating this process as a Project and completing it within a few years and obtaining the financial allocations required for it from the Treasury.

v. The Committee identified the fact that some compulsory changes should happen in certain sections to make the process carried out by the Institution more efficient and reports should be submitted to the Committee and the Auditor General in regard to the following matters within a period of one month.

- The persons who continuously remained in the same position for a number of years out of the 434 employees on the actual staff as at 31.12.2017 along with names of those positions.
- The transfers and changes positions of the aforesaid employees;
- The places to which transfers were made;
- The positions held by them at present;
- The fact whether a systematic methodology is available to make transfers;
- If so, the aforesaid methodology;
- The fact whether an incident in which the files of the Institution were taken outside by the political authority was reported;
- If so, the names of the persons who held that political authority;
- The fact whether steps have been taken to change the internal placement of employees within the institution;
- If so, the occasions on which it was done;
- The steps taken for it

**Reporting the Current Situation and the Progress**

i. A report of the transfers of the staff grade officers in the head office and district offices has been submitted through the letter No. 3/1/45 dated 27.09.2018, sent by the Secretary to the Ministry of Lands and Parliamentary Affairs in response to sub-number (v) above.

ii. Reports related to other matters mentioned above have not been submitted.

**02. Lands without Benefits**

An extent of 98 acres from the land called Nikapotha the district of Badulla had been leased out to a private company in an systematic manner in the year 2004; the aforesaid lease was cancelled upon a decision of the Cabinet of Ministers; this land has been leased out to the same company for a period of 30 years upon a decision...
of the Commission irrespective of the aforesaid decision of the Cabinet of Ministers and any income has not been received from the said land.

**Recommendations**

i. A methodology should be formulated in order that productive benefits could be received by the Commission having made direct discussions with the institutions, which have not made the relevant payments properly and the owners of which are also not certain, due to the fact that Committee observed that there are a number of occasions on which such transactions have been done.

ii. The aforesaid methodology should be formulated in a manner in which the officers who do not extend their cooperation for it are held responsible in that regard.

**Reporting the Current Situation and the Progress**

i. The progress has not been reported.

03. **The lands which have been leased out or given on rent to various institutions**

The Committee inquired in detail about the lands which have been given on rent or leased out to various institutions by the Land Reform Commission.

**Recommendations**

i. A Committee should be appointed by the Ministry to prepare a detailed report about the lands which have been leased out or given on rent to various institutions, which includes the following matters, and a cabinet paper should be submitted to the Cabinet of Ministers having been included the recommendations of the Committee On Public Enterprises.

- The 528 lands which have been leased out given on rent
- The businesses carried out in these lands
- The fact whether any other business other than the ones which have been permitted are carried out
- The fact whether payments have been made for these lands properly
- The date on which these lands were used for a productive purpose and the date on which income was generated through them
- The fact whether these lands will be conveyed to the owners who obtain income from them
- The basis on which lands will be conveyed in that manner
- The amount of income received from these lands and the amount received according to the current assessment
Taking action to charge some reasonable specific amount from the persons who enjoy the possession of these lands to the Land Reform Commission with effect from the date on which lands were given to them upon reaching a consensus in regard to the fact that income is generated from the said lands.

ii. Submitting a detailed report in regard to the aforesaid matters to the Committee on Public Enterprises and the Auditor General.

**Reporting the Current Situation and the Progress**

i. Has not been reported.

ii. See (Annexure 22)

04. **Debtor Balance**

A debtor balance existed due to the fact that 2 billion rupees due from a few public enterprises such as State Plantations Corporation, Janatha Estate Development Board could not be collected due to the shortcomings in documents.

**Recommendations**

Submitting a report in writing to the Committee and Auditor General within a period of month in regard to the courses of action that will be taken to correct this situation.

**Reporting the Current Situation and the Progress**

i. Has not been reported.

05. **Identifying and Surveying the lands which belong to the Land Reform Commission**

Establishing a Special Task Force to identify and survey the lands which belong to the Land Reform Commission.

**Recommendations**

- Submitting a report within a period of 1 month in regard to the courses of action that should be taken about the lands that have been developed but have not been gazette and also the lands which have been gazetted but not have been developed.

- Submitting a report to the Committee within a period of 1 month about the remaining extent of lands of the Land Reform Commission.
• Submitting a report to the Committee and Auditor General within a period of 2 months having examined the following matters at Ministerial level

- A plan to obtain an income from the institutions from which the Commission has a legal entitlement to receive an income but actually is not receiving any income
- The fact whether lands which actually do not generate an income have been identified with the intervention of the officers of the Land Reform Commission
- If so, the names of the aforesaid lands
- The places in which there are hindrances

• Submitting a classification of the lands that belong to the Land Reform Commission as per the prevailing situation of those lands that has arisen as result of the aforesaid matters

• Reporting the progress of this process to the Committee and the Auditor General within a period of 3 months

**Reporting the Current Situation and the Progress**

i. The progress has not been reported.
Annexure 22

The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

2015 to 2016 period: figures in lakhs

2018.08.23

2018.09.20

1. Was the board of directors of the company classified as a public company by the law?

2. Was the company's financial statement audited by an external auditor?

3. Did the company comply with the regulations?

4. Was the company's board of directors re-elected?

5. Did the company's management make any changes in the board of directors?

6. Did the company's management make any changes in the board of directors?

7. Did the company's management make any changes in the board of directors?

8. Was the company's financial statement audited by an external auditor?

9. Was the company's financial statement audited by an external auditor?

[Signature]

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Sri Lanka Securities and Exchange Commission

(Ministry of Finance and Mass Media)

Date of enquiry: 4th September 2018

Matters Discussed

01. Securities Exchange Bill

Inquiring about the matters that are especially mentioned in this Bill

The Director-General stated that the maximum fine that can be charged for an offence committed under this new Bill has been increased up to 100 million rupees and the aforesaid fine will be increased three fold if an undue profit has been earned.

02. The Transaction of the Shares of the National Savings Bank

The latest situation in regard to this transaction of shares was inquired.

The Director – General stated that though this matter has been referred to the Attorney General’s Department to obtain an opinion about it and an answer has not been provided as yet and a broad inquiry has to be conducted in this regard.

03. Allowances Paid to the Staff

The Committee pointed out that permission has been granted to reimburse the bonuses, medical expenses, vehicle allowances, fuel allowances etc. provided to the staff as per a letter sent by the Secretary to the Ministry of Finance and Planning but the concurrence of the Salaries and Cadre Commission has not been obtained in this regard and the Committee inquired the opinion of the Secretary to the Ministry about this.

The Director (Finance and Planning) of Sri Lanka Securities and Exchange Commission stated that the then Secretary to the Ministry had given approval for this through a letter and that the Attorney General’s Department has informed that the Securities and Exchange Commission is vested with power to take decisions in this regard as per the Act and due to that reason the concurrence of the Salaries and Cadre Commission was not sought for this.

The Secretary to the Ministry stated that though provisions are available in the Act, taking such independent action is problematic and this matter would be referred to the Salaries and Cadre Commission and action will be taken to entertain their opinion in this regard.
Recommendations

- Reporting the progress of this within a period of one month.

Reporting the Current Situation and the Progress

The following matters have been pointed out through the letter No. SEC/DG/2019/01/05 dated 4th January 2019 sent by the Director General of the Securities and Exchange Commission.

- The Commission determines the salaries and allowances of the staff, and the cadre upon the approval and the instructions of the Secretary to the Treasury and Attorney General as per the provisions of the Act due to the fact that a staff with specialist knowledge is required for carrying out the operations of the Securities and Exchange Commission in an independent manner.

- The letter sent to the Secretary to the Treasury explaining the capacity of the Securities and Exchange Commission to determine the salaries and allowances of its employees as was agreed in the discussion held with the Secretary to the Treasury on 5th October 2018 is given Annex 04.

04. Central Counter Party Mechanism (CCP)

The Committee observed the fact that Central Counter Party mechanism has been commenced through a tripartite agreement with the participation of the Colombo Stock Exchange, Sri Lanka Central Bank and Sri Lanka Securities and Exchange Commission and the Commission had paid its due share of the consultation fee, 22.2 million rupees, and the Committee inquired about the aforesaid agreement, the objective of this project and the fact that the Central Bank has withdrawn from the agreement.

The Director General of the Commission stated that the objective of this project was to eliminate the requirement of an arbitration in the transactions that occur between buyers and sellers in the stock exchange and this project was commenced with the view of introducing one and the same CCP mechanism for all securities. The Director General further mentioned that though the Central Bank has decided to commence a separate CCP, this project has been designed in a manner in which they also can join it in the future if they wish to do so.

The Deputy Governor of the Central Bank stated that he can later inform the Committee of the reasons as to why the Central Bank has withdrawn from the project and he also mentioned that a separate CCP mechanism, a central data store and an electronic platform are being prepared at the moment and a committee has been appointed for this by now.
Recommendations

i. Submitting to the Committee the reasons for Central Bank to decide to join this project and the reason for its withdrawal from this project and the feasibility report of this project.

ii. Looking into the possibility of carrying this project as one project with the participation of the three Parties again and as carrying out this project as two projects is a wastage of money and coordinating the aforesaid task.

Reporting the Current Situation and the Progress

i. Has not been reported yet.

05. Paying one half of the salary to an officer who has been interdicted

An amount of 3,503,010 rupees had been paid to an officer who had been interdicted with effect from 19 April 2016 as one half of his salary for the period from April 2016 up to December 2017 in contravention of sub-section 31.11 as per the provisions of section 31 to be read with section 31.1.3 in Chapter XLVIII (Volume) of the Establishment Code.

The Director General mentioned that the inquiry that was recommenced against this officer during the recent past was not conducted properly and an inquiry is underway in this regard and he further mentioned that it is expected to discuss this matter with the Attorney General once the report of the Auditor General is received.

The Secretary to the Ministry mentioned that an inquiry in connection with the provisions incorporated in the Establishment Code should be made from the Director of Establishment and if the interdiction has been done upon the sections mentioned here it is not possible to pay one half of the salary.

Recommendations

The Committee having observed that the payment of one half of the salary to the officer who had been interdicted has not been done adopting the due procedure, made the following recommendations:

- Stopping this payment with immediate effect
- Taking action to recover the whole amount paid as one half of the salary by now.
- Taking action to prepare a proper Operational Manual and submit it to the Ministry with copies to the Auditor General and the Committee on Public Enterprises of Parliament in order to avoid the recurrence of such incidents.
Current Situation and the Progress

It has been informed through the letter No. SEC/DG/ 2019/01/05 dated 4th January 2019 sent by the Director General of the Securities and Exchange Commission to the Committee that even though the Commission had decided to act in accordance with Establishment Code in regard to the disciplinary matters of the employees, one half of the salary was paid to aforesaid officer taking into the consideration the manner in which the investigations were conducted into the offences made by the said officer in regard to the capital market and also the fact whether disturbances maybe caused to the investigations by him. However the payment of one half of the salary has been stopped with effect from September 2018 as was informed by the Committee and action will be taken to recover the payment made to him during the period from April 2016 up to August 2018 once the opinion of the Attorney General and the approval of the Commission are obtained.

06. The Colombo Share Market

The Committee pointed out that the Colombo Share Market has collapsed and people have lost their trust in it, hence action should be taken to enhance it having established the trust of people.

The Chairman of the Commission mentioned that this is the most attractive share market in Asia but an opinion is being created to the effect that the share market has collapsed.

The chairman mentioned that seminars are conducted once a month to promote the share market but expected results have not yet been able to be achieved due to the fact that the participation of the stock brokers in the aforesaid seminars remains at a lower level. He also mentioned that he accepted the matters pointed out the Committee in connection with the share market and would act enthusiastically to enhance it.

07. The action taken in connection with the persons against whom allegations were levelled

The Committee inquired about the action taken in connection with the persons against whom charges were leveled as the regulatory body which monitors the situations in which injustices may be caused to all due to the manipulation of the share market.

The Chairman admitted the fact that 12 cases which had been closed saying that the hearing of the said cases had been completed were opened again having reviewed them but inquiries were not able to be conducted properly due to the shortage of staff and the non-availability of a Director for the Investigation Unit during the recent past.

The Director General stated that the current Securities and Exchange Act provides only for criminal sanctions and it has been proposed through the new
Act to grant power to the Commission to charge fines based on circumstantial evidence.

**Recommendations**

The Committee informed the Secretary to the Committee to inform the Hon. Speaker that it discussed the matters included in the proposed Securities and Exchange Bill and came to a decision to make a request from the Hon. Speaker to take action to include this Bill to the order paper with immediate effect and take further action in that regard.

**08. Demutualization of the Colombo Stock Exchange Bill**

The Committee inquired about the ownership of the Stock Exchange by the broker companies and the Securities and Exchange Commission and also about the concurrence of theirs in that regard as per the Bill.

The Chairman stated that this Bill was not read for the third time due to the problems that arose in regard to the percentage of ownership of the institution created by this bill to be held by the broker companies of the Colombo Stock Exchange and the Capital Market Development Fund and this matter should be discussed with the Minister in time to come.

It was the view of the Committee that it is better to provide at least 5% of the shares of this market to the employees of the broker company.

The chairman stated that he will discuss with the relevant broker companies to grant 5% of the shares of the established fund to the employees of those companies.

**Conflict of Interest**

The committee pointed out that the highest percentage of the shares of the fund will not be owned by the government as per the provisions of the proposed bill but the government will have to be responsible for all the decisions that will be taken, due to the fact that the government remains a shareholder and if the government does not hold the highest percentage of the ownership of the fund, it will not be suitable for the public officers to hold positions in that fund and it will be better for the fund to exist as a private entity.
Recommendations

- The Secretary to the Committee agreed to reconsider this matter

Reporting the Current situation and progress

- Has not been reported
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka
In responding to the above request, the then Secretary confirmed in writing that the SEC is ‘free to recruit personnel and to fix their salaries and emoluments without being subject to Government regulations’. (refer Annexure 2).

In May 2008, the Attorney General’s Department advised the SEC by letter E/08/2008/SEC inter alia that:

‘Regulations will not be applicable to matters where the SEC is empowered to determine matters, that is, where ever the SEC Act contains specific provisions, to that extent the financial regulations will not be applicable. As such SEC is empowered to determine matters referred to in Section 43(2) as well’. (refer Annexure 3)

N.b: Section 43, entitled ‘Staff of the Commission’ provides, in Section 43(1), that the Commission may appoint such other officers and servants as it considers necessary for the efficient discharge of its functions.

Section 43(2), to which the above-mentioned legal opinion refers, provides for officers and servants appointed to be remunerated in such a manner and at such rates as are determined by the Commission.

Such remuneration is to be provided from the proceeds of the Cess levied by the SEC in terms of section 14A of the SEC Act, so far as this is within the contemplation of section 14B(2)(c), which provision includes the exercise, performance and discharge of the powers, duties and functions of the Commission for the purpose of achieving its objects. Accordingly, the SEC is a self-funded regulator and defrays all costs without depending on the Consolidated Fund.

In order to effectively discharge the mandate of the SEC, appropriately qualified staff with specialized skills and experience must be recruited and retained. The SEC, in doing so, is required to adequately compensate such staff. During the recent past, the SEC was unable to fill certain important vacant positions despite multiple advertisements mainly due to inability to attract top talents with the existing pay structure.

In January 2016, having taken into consideration the need to recruit and retain specialized trained staff for the SEC, the members of the Commission endorsed the recommendation of the Remuneration Committee of the SEC that, if the SEC is free to recruit personnel in terms of the SEC Act and the confirmation received from the former Secretary to the Treasury which was affirmed by the Attorney General’s Department, the Commission should also decide the composition of the SEC Cadre.

Additionally, the operational independence of the SEC is a key consideration in the assessment of our ability to ensure Sri Lanka’s compliance with the minimum standards of securities regulation applicable internationally; the International Organisation of Securities Commissions (IOSCO) in its recent Country Review of Securities Regulation expressed particular concern with respect inter alia to the deficiencies in operational independence of the SEC, such concern resulting in a final assessment that several aspects of regulation directly pertaining to the SEC were not implemented.
Based on the foregoing, we trust that you understand and appreciate that it is vital for the SEC, as the capital market regulator, to demonstrate operational independence to existing and potential investors, particularly those of foreign origin; such independence including _inter alia_ the discretion to recruit and retain appropriately qualified staff with specialized experience and to remunerate them accordingly with a view to effectively discharging the mandate of the SEC.

Yours sincerely,

Vajira Wijegunawardane
DIRECTOR GENERAL

Find: SEC letter dated 3rd March 1992
Mof letter dated 31st March 1992
AG's letter dated 28th May 2008

Copy: Director General, Public Enterprises Department
Director General, Department of Management Services
Chief Accountant, Ministry of Finance and Economic Affairs
Matters discussed

01. Management Board

The committee emphasized that the number of ex-officio members of the management board as per the organizational structure is 10, the number of members appointed by the University Grant Commission is 07 and the approved academic cadre is 15 and the approved executive cadre is 5. It is problematic to have 15 members in the Academic board and 17 members in the management board and should therefore be reviewed further. The following matters were raised by the committee.

i. The management board has not met from January to May 2018.

ii. One ex-officio member appointed as per 6 (1)c of the organizational structure has participated in only one meeting out of the eight management board meetings conducted in the year 2017.

iii. Whether discussions had been conducted on the change of the composition of the management board.

The Deputy Chairman of the University grant commission stated that the attention of the University Grants Commission has been paid towards this matter and that this matter has been informed to the heads and the vice chancellors of each University and further that it has been requested to draft the composition of the Management boards of each institution as per a common frame. It was also stated that the particular institutions have been questioned with regard to the limitations in these numbers.

Recommendations

i. It was recommended to report to the committee within a period of one month.

Reporting the current situation and the progress

i. It has not been reported.

02. Academic board

Inquiring whether this board functions within the institution.
Director of the institution stated that even though there should be two academic boards as per the organizational structure, only one academic board has functioned from the initiation and further that action is being taken to rectify certain weaknesses which are prevalent in the act.

**Recommendations**

i. Taking measures to make the required amendments to the Act within a period of two months and reporting the same to the committee.

**Reporting the current situation and the progress**

i. It has not been reported

**03. The participation of the school teachers in Courses**

The committee inquired about the participation of the school teachers in the following the courses.

The director of the institution stated that around 100 teachers have participated in these courses around 15 years ago and that the numbers have declined recently. The reason for this decline according to him was the lack of proper understanding about the structure and the formats of these courses.

**Recommendations**

i. As it is possible to get more successful results by introducing an archeology course along with the diploma with the support of the Ministry of education and the secretary of the subject ministry, it was recommended to examine the possibility of introducing such a course, to formulate a systematic mechanism required for that purpose and to report the progress to the committee.

**Reporting the current situation and the progress**

i. It has not been reported

**04. Academic staff**

It is observed that there are 09 members in the academic staff, the number of hours they should work per day was inquired and the payment made to Mrs. Rose Solanga Arachchi was also inquired.

The director of the institution stated that all these nine persons have completed the required number of hours within the study period and a professor and a senior lecturer should work 08 and 12-15 hours per week respectively. It was also stated that Mrs. Rose Solanga Arachchi is a member of the permanent staff and receives
a monthly salary and that she has completed the number of units to be completed and has migrated these days.

**Recommendations**

i. To examine and to report on the manner in which the academic staff has rendered services within a period of 02 years.

**Reporting the current situation and the progress**

i. It has not been reported.

05. **The number of Students who passed out having completed the courses**

Inquiries were made about the number of students who have completed the PDMU, PDHS, MA, MSC, MAR courses within the period from 2013-2017. It was observed that only one student has passed out during the period of last five years and also that a substantial number of students have got registered for and completed the PDAR courses.

The director of the institution stated that the number of students who have completed the courses was comparatively low and this is resulted by the substandard facilitation which does not reach the level expected by the students.

**Recommendations**

i. Introducing an attractive programme to retain the students who register for a course.

**Reporting the current situation and the progress**

i. It has not been reported

06. **Capital Grants**

The balance of the unspent capital grants as at the start of the year under review was Rs.2935820/=this amount was out of the capital grants received for the rehabilitation of capital assets and for teaching materials. Capital grants with a value of Rs.500000/=has been obtained in the year under review in spite of having adequate funds at the start of the year. The capital expenditure of the year was Rs.879661/= and therefore capital grants with a value of Rs.2556159/- remained under utilised as at the end of the year. Therefore, the attention of the committee was drawn towards formulating a programme to encourage the students who conduct research, making use of these funds.
The director of the institution stated that a dynamic programme is being formulated for this purpose.

**Recommendations**

i. To present a report including information about the number of students who have conducted research during the past 05 year period (2011-2015) and the number of students who have passed out during the said period

**Reporting the current situation and the progress**

i. It has not been reported

07. **Laboratory**

Inquiring about the current status of the laboratory of which the construction was started using 20 million received from the General Treasury on recommendation made by this committee.

The director of the institution stated that the construction activities were started in the year 2012 and were completed in 2013, and instruments have been purchased at an expense of ten million rupees. And also it was stated that the performance of the laboratory is not satisfactory although it is at a functional status at the moment.

**Recommendations**

i. To prepare a plan including the future activities of the institution pertaining to this matter and to present it to the committee.

**Reporting the current situation and the progress**

i. It has not been reported

08. **Current Account Balances**

The balances of the two current accounts of the institution as at 31 December 2017 were Rs.4564755/= and Rs.5338930/= and the general balances which were available in these two accounts throughout the year were Rs.6065743/= and 6292205 respectively. The committee observed non performing balances in the current accounts and inquired the same.

The director of the institution stated that a certain amount of money stagnated in the bank accounts for a long period of time, special attention in that regard was paid once the matter was pointed out by the government audit division and that only the monthly requirement of Rs.5 million is released monthly at the moment and further that it has been decided to follow the 7 day call deposit methodology.
09. **Items with an archeological importance**

In the year 2011, a substantial amount of archeological artefacts had been donated to the institution by a certain archeologist aiming to be exhibited for the parties with archeological interests but the then director of the institution to whom these items were handed over, has kept them in his office room for a period of 06 years approximately. The committee which observed this situation, inquired about it.

The director of the institution stated that these items which were gifted by an architect had been kept in the office room of the then director, that items cannot be thus kept in his custody as per the Antiquities ordinance and that such items should be handed over to an institution like the Department of Archeology. It was also stated that the current problem is the demise of the said director which occurred around 02 weeks ago, and that discussions are underway as it is difficult to take a decision with pertinence to the matter under the present circumstances.

**Recommendation**

i. It was recommended to take appropriate action with immediate effect.

**Reporting the current situation and the progress**

i. It has not been reported.

10. **The website of the institution**

The committee inquired about the lack of attractive information on the laboratory and the library in the web site of the institution and also about taking measures to raise the awareness of the educated masses with an interest to obtain a post graduate degree in Archeology.

**Recommendations**

i. Taking expeditious measures by the secretary in integration with the university grants commission to do the basic structural changes required.

ii. Presenting the action plan and the procurement plan of the institution.

**Reporting the current situation and the progress**

i. It has not been reported

ii. The action plan and the procurement plan of the institution have not been presented to the committee.
Matters discussed

01. Board of control

The board of control consists of 22 members and only 05 members out of that have participated in the committee. The committee inquired about this.

The director of the institution clarified the situation and the following was disclosed there.

i. The meetings of the Board of control have not been hitherto conducted although the board has been appointed.

ii. Although the president’s approval has been received for the members nominated to the board of control, letters of appointment have not been issued yet.

iii. The letters of appointment are to be issued on 10.09.2018.

Recommendations

The committee emphasized that the former board of control should be responsible for the institution until the new board is appointed and it was recommended to re-summon the National Secretariat for the persons with disability to COPE after the appointment of the new Board of control.

02. Not maintaining a data bank for the persons with disabilities

The above matter has been discussed in the COPE meeting which was held on the 20th of August 2014 and it has been recommended to present a report. It has not been informed to COPE up to date.

The secretary to the ministry stated that the institution does not possess information of all the persons with disabilities living in the country and only the information related to the persons with disabilities who get assistance and those who are waiting in the lists to get assistance are in their custody.

The committee engaged in a comprehensive discussion on the fact that not only the persons who seek assistance but all the persons with disabilities deserve to be assisted thus and focused on this, there is a requirement to
identify all the persons with disabilities living with in the country, and also that there is a requirement to provide them with appropriate assistance and to do the follow up activities properly.

The subject minister/the chairman of the Board of control made submissions pertaining to this matter and the following was disclosed.

i. A data base on the persons with disabilities is being prepared.

ii. The Rights of the persons with Disabilities Bill is currently under the supervision of the office of the Legal Draftsman.

Recommendations

- Presenting a leaflet through the secretary mentioning the benefits that are accrued and can be accrued from the National secretariat for the persons with disability
- Taking the basic steps on the preparation of the data bank within 03 months
- Preparing the data bank under the guidance of a specialized institution with the required training pertaining to the subject

Reporting the current situation and the progress

- The information leaflet prepared as per the recommendation (i) above, to be distributed to all the divisional secretariats of the country and among the public during all the mobile service programmes and national programmes has been presented to the committee through letter number MSWPI/NSPD/COPE/2018 dated 01.03.2019 of the director of the National secretariat.

- In the above letter it has been informed that arrangements have been made to conduct a survey on the persons with disabilities in the year 2019 in integration with the Department of census and statistics since officers with the relevant expertise on conducting census should conduct the survey and since it is possible to maintain accurate statistics. It has also been informed that plans have been made to collect the data required using separate questionnaires having identified 07 sectors related to the disability community in the census which will be conducted in 2021.

03. Issuing driving licenses for the persons with disabilities

The attention of the Committee was drawn towards taking measures on issuing driving licenses to the persons with disabilities.
The secretary to the ministry stated that discussions have been already conducted with the Department of motor Traffic pertaining to this matter.

04. Cadre Vacancies

14 Vacancies existed in the cadre as at 31 July 2018.

The secretary to the ministry made submissions in this regard and the following was discovered there.

i. The national secretariat for the persons with disability is still just another section which is conducted under the Ministry of social welfare and primary industries.

ii. All the recruitments are done through the ministry of Public Administration.

iii. There is a possibility to recruit external workers after passing the relevant Act.

Recommendations

- To fill the relevant vacancies within a month having drafted the number of special vacancies as applicable to the National secretariat for persons with disabilities in consultation with the Department of Management services.

Reporting the current situation and the progress

- It has been informed to the committee through letter number MSWPI/NSPD/COPE/2018 dated 01.03.2019 of the director of the National secretariat that the Department of management services has been informed of the matter.

05. Budget

The committee pointed out the requirement to formulate the budget considering all the productive suggestions made, enabling to bring about a more advantageous outcome on the persons with disabilities.

Recommendations

i. Referring the draft budget to the attention of the Auditor general.

Reporting the current situation and the progress
i. It has been informed to the committee through letter number MSWPI/NSPD/COPE/2018 dated 18.10.2018 of the director of the National secretariat for the persons with disabilities that the said budget document has been referred to the Auditor general.

06. **Housing Assistance Project**

A sum of Rupees 4311271/= out of the funds granted to the divisional secretariats for Housing assistance in the year 2015 has been reimbursed to the national secretariat at the end of the particular year and the committee inquired the reasons for not re-utilizing the balance amount for further Housing assistance.

The chairman of the institution stated that such a situation has not arisen.

The secretary to the ministry made submissions on the methodology adopted in granting funds as housing assistance and the following was discovered there.

i. A sum of Rs.250000/- is provided for a new house and Rs. 150000/= is provided for refurbishment activities.

ii. The relevant payment is done in three installments.

iii. The balance payment is made after the completion of one section of construction.

iv. The relevant funds are forwarded to the divisional secretary

The committee pointed out the need of carrying out proper follow up measures since it cannot be presumed that the work is properly completed simply by sending the funds to the divisional secretary.

**Recommendations**

i. To submit all the documents in the custody of the institution to the committee as proof of the funds granted.

**Reporting the current situation and the progress**

A report on the income received and the expenses made in the year 2015 related to the Housing assistance programme for the persons with disabilities, has been submitted to the committee through letter number MSWPI/NSPD/COPE/2018 dated 01.03.2019 of the director of the National secretariat for the persons with disabilities. *(Annexure 24)*

**Annexure 24**
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
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<tbody>
<tr>
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<td>2015</td>
<td>₹ 31,892,505.00</td>
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<tr>
<td>2016</td>
<td>₹ 17,999,657.72</td>
</tr>
</tbody>
</table>

...
Sri Lanka Ports Authority
Matters Discussed

01. Corporate Plan

Although a corporate plan for 2013-2020 had been prepared, action had not been taken to review it annually, to identify changes in the targets and to formulate an action plan that could be applied to achieve those targets.

Chairman of the Sri Lanka Ports Authority stated that due to the revolutionary changes that have taken place in the ports and shipping sector, a need has arisen to re-organize this corporate plan which was formulated some years back, in order to reflect those changes. It is planned to carry out this task after receiving the ADB Master Plan.

The Committee inquired about the impact that the ADB Master Plan will have on the Ports Authority given the fact that Sri Lanka Ports Authority is an institution coming under the purview of the government.

Chairman of the Sri Lanka Ports Authority expressed views clarifying the situation, which disclosed the following:

i. The Ports Development Master Plan is being prepared under a grant from the Asian Development Bank

ii. The Asian Development Bank has agreed to fund the Corporate Plan of the Ports Authority parallel to the above

iii. The Asian Development Bank has made an unsolicited offer to provide consultations necessary to prepare the Corporate Plan

iv. Accordingly, all payments made to Prof. Thilakasiri, who works as a consultant, are made by the ADB

v. The Corporate Plan can be finalized within a month

Recommendations

i. A report about this proposal of the ADB, inclusive of information about the following, should be submitted to the Committee within a period of one month:

a. The manner in which contact was made with the Ports Authority regarding the aforementioned proposal of the ADB

b. Agreement expressed in this regard at the Ministry level

c. Conditions and deadlines subject to which it was agreed to prepare the Corporate Plan of the Ports Authority through the ADB

d. whether the aforementioned Corporate Plan covers the entire Port or only a part of the Port.
Reporting progress at present

i. Not reported.

02. Non-Execution of Planned Activities

Attention of the Committee was drawn to the fact that none of the following activities, which had been planned as activities to be carried out in year 2017, had not been initiated during the year:

i. Spending a sum of Rs. 60 Million to install a CCTV camera system covering all gates of the Ports premises and all the warehouses in bond

ii. Implementing a container terminal management system spending Rs. 400 Million in the Information Technology Division

iii. Installing a gate access automation system spending Rs. 50 Million

iv. Designing a voice communication system by the Electrical and Engineering Division to cover all divisions at an expenditure of Rs. 20 Million

Attention of the Committee was drawn to the installation of a CCTV camera system for Rs. 60 Million to ensure security in the Ports premises. The Chairman made the following clarifications in this regard:

i. Tenders have been called for a CCTV system

ii. The quotes received, had pricing that exceeded the relevant limits

iii. Therefore, that tender was cancelled and tenders were called anew

iv. Quotes received, have been presented to the tender committee of the Ministry

v. It is expected to award this contract before the end of year 2018

Committee inquired reasons for the change in pricing between the first and second instances of calling for tenders. It was revealed that price had not been reduced when the second tender was called, instead, the area covered by CCTV system that has been reduced.

Recommendations

Following aspects of this planned activity should be reviewed and a report should be sent to the Committee within a period of one month.

i. Was the pricing for this activity determined through the Technical Committee

ii. Who were the members of the Technical Committee
iii. How were budget estimates made for this purpose
iv. what is the current situation

**Reporting progress at present**

i. Not reported.

**03. Staff Particulars**

Attention of the Committee was drawn to the fact that 121 workers attached on contract basis through a manpower supply company called the Ports Management and Consultancy Ltd. remained in the employment of the Authority to carry out various duties even as at 31 August 2018 in addition to the actual cadre of the Authority. Committee inquired whether these workers are included in the approved cadre.

Chairman of the Authority expressed views in this regard, disclosing the following:

- Workers in question do not come under the approved cadre
- They are employed on contract basis with their service being extended from year to year
- As per the new circular, payment of salaries to workers who are not in the approved cadre has been stopped
- Based on the above, salaries of the aforementioned workers are not paid
- Sri Lanka Ports Authority has made a request to the Treasury to attach them to the Ports Authority under the approved cadre on the basis of one year’s contract.

The Committee inquired as to why approval had not been received even as at 10 August 2018 although the Sri Lanka Ports Authority had prepared a formal recruitment procedure as per relevant circulars and submitted the same to the Department of Management Services by 19 July 2011.

The Chairman of the Authority stated as follows:

- Requests in this regard were made to the Department of Management Services on several occasions
- However approval was not received
- Reasons for not granting approval have not been stated
- Several reminders in this regard have been sent through the Ministry
- All recruitments are made with approval from the Board of Directors of the Sri Lanka Ports Authority
Department of Management Services stated the following:

- Sri Lanka Ports Authority made a request in this regard in year 2013
- The matter was referred to the National Salaries Commission
- Stating that the recruitment procedure needs to be amended, the request was rejected by the National Salaries Commission
- The Authority was informed of this matter but the Authority has not submitted a recruitment procedure with relevant amendments.

When it was inquired from the Sri Lanka Ports Authority, it was stated that the letter sent to the Authority through the Salaries Commission has not been received.

Committee pointed out that not indicating clearly, a formal methodology to recruit persons to various posts, is a major shortcoming in the recruitment procedure.

**Recommendations**

i. Preparing within a month, a recruitment procedure with proper recruitment methodology and sending the same to the Department of Management Services.

**Reporting progress at present**

i. Through the letter of the Chairman of the Sri Lanka Ports Authority bearing ref. 08/11/21 dated 16-10-2018, the Committee has been informed that the amended recruitment procedure is due to be submitted for the approval of the Department of Management Services consequent to submitting the same to the Board meeting.

**04. Internal Audit**

Attention of the Committee was drawn to the fact that 40 out of the 42 audit reports pertaining to the Authority during 2017 had not been reviewed although external audit reports had been reviewed in the year.

The Committee emphasized the significance of internal controls in the institution and that greater attention should be focused on internal audit queries for that purpose.

The Director General of the Department of Management Services, who functions as the Treasury Representative for the Ports Authority expressed views regarding this matter, disclosing the following:

- Approximately 04 meetings of the audit and management committee are held per year
• A large number of audit queries are regarding the Ports Authority are received
• The methodology adopted by the Ports Authority with regard to payments is highly informal
• Internal controls are at an extremely low level
• The Authority does not furnish information about payments made without approval

Recommendations
i. A formal methodology that would enable the provision of speedy responses to audit queries should be prepared after discussions with the Director General of the Department of Management Services

Reporting progress at present
i. Not reported.

05. Purchasing of Cranes
Attention of the Committee was drawn to the fact that purchases have not been made until now although the Technical Assessment Committee had recommended the purchasing of 02 new large cranes as per the plan to replace equipment connected to terminals at the Ports Authority.

Chairman of the Authority expressed views regarding this matter, disclosing the following:

i. There was no proper methodology for the purchasing of this equipment
ii. Tenders were called
iii. There were 07 bidders
iv. Purchasing got delayed due to several policy issues
v. The Authority was able to obtain government approval for the Ports Authority’s control over the Eastern Terminal
vi. Minister of Ports and Shipping signed a Cabinet Paper to purchase equipment necessary
vii. Cabinet approval has not yet been granted to this Cabinet Paper

Recommendations
i. A report comprising of all information pertaining to calling of the tenders, should be sent to the Committee

Reporting progress at present

i. Not reported.

06. Payments for the Construction of the Sooriyawewa Stadium

Although it was informed by the management that a final agreement has been reached to pay a total amount of Rs. 3950.8 million inclusive of interest in place of the delay in the payment of Rs. 993.8 million that was to be paid for the construction of the Sooriyawewa Stadium, this payment has been removed from the books of the Ports Authority by 31 December 2017. The Committee inquired about this matter.

The Chairman presented the following facts:

i. Since this was a large sum of money, the Ports Authority did not agree to pay this sum
ii. The Treasury has informed in writing that the said payment will be paid
iii. Therefore action was taken to remove this payment from the books of the Authority

Attention of the Committee was drawn further to the fact that the said payment was made by the Authority in year 2018 using a loan obtained from the People’s Bank.

Chairman of the Authority stated that the loan agreement contains a condition which states that all payments shall be made by the Treasury although the Ports Authority has signed for the loan since there has to be an applicant for the loan.

Committee emphasized that it is problematic when the Authority has applied for a loan from the People’s Bank to settle the abovementioned payments in year 2018 despite the fact that the said payment had been removed from the accounts of the Authority in year 2017.

Recommendations

i. Director General of the Department of Public Enterprises was directed to send to the Committee, a report focusing on the following:
   - Where will the loan be recorded?
   - Who will be assigned the responsibility of this loan?
   - How will the People’s Bank recover this loan?

Reporting progress at present

166
i. Not reported.

07. Payments for Construction Work on the Hambantota Port

Attention of the Committee was drawn to the following payments pertaining to the Hambantota Port.

i. A total of USD 1,541 million comprising of foreign loans, domestic loans, direct contribution from the Ports Authority and indirect cost had been spent on phase I and II of the Hambantota Port as at 31 July 2018.

ii. According to the financial records of the Authority, operational loss of the Port is Rs. 21,904 million as at 31 December 2017.

Recommendations

i. A copy of the agreement made for the construction of the Port should be sent to the Committee within 02 weeks.

ii. The Cabinet paper and the Cabinet decision pertaining to this construction should be sent to the Committee

Reporting progress at present

i. Not reported.

08. Investment Value of the Hambantota Port

As per the Cabinet decision 냅니/17/1580/737/018 dated 04 August 2017, a company had been established and its investment value has been given as USD 1,400 million. Attention of the Committee was drawn to this fact and it was disclosed that total value of the lease to be charged for the 99 years had not been taken into consideration when the investment value for the transferred 1,103ha of land was determined.

Inquiries in this regard were made from the Secretary to the Ministry and he stated that action will be taken to look into the matter and report to the Committee.

Recommendations

i. A report that includes information about the following should be prepared and sent to the Committee within a period of 02 weeks

- Who made the assessment?
- Who determined that the assessed value is USD 1,400 million?
When investment value was determined, was the lease amount to be paid for the 1,103ha of land transferred on a 99 year lease period, taken into consideration?

**Reporting progress at present**

A report with details on the investment value of the Hambantota Port has been submitted to the Committee through letters MP&SH/ACC/COPE/S.L.P.A. dated 05-10-2018 and 01-11-2018 of the Secretary to the Ministry of Ports and Shipping. (Annexure 25)

**09. Loans Obtained for the Construction of the Hambantota Port**

Inquiries were made about the loans obtained by the Ports Authority for the construction of the Hambantota Port.

Chairman of the Authority stated as follows:

i. There is a loan balance of Rs. 147 million.

ii. The Cabinet has decided that all the loans should be paid by the Treasury.

iii. These loans have been removed from the books of the Ports Authority and the Treasury has been informed regarding the same.

iv. The two ministers in charge of the respective subjects are to come to a conclusion in this regard after discussion.

Department of Public Enterprises expressed views in this regard, disclosing the following:

i. The Cabinet paper stipulates that the Treasury should carry out the debt servicing.

ii. It does not mean that expenditure pertaining to the aforementioned loan should be borne by the Treasury.

iii. If not, it could be problematic to the accounts of the Treasury.

Committee inquired as to who decided to remove the aforementioned loan from the books without a Cabinet decision.

If this loan is no longer in the books of the Authority or in the accounts of the Treasury, the question as to where this loan is now recorded, was raised in the Committee.

Committee suggested the following: With the agreement of the Ministers who handle the subjects of the Treasury and the Ports Authority, debt service payments of the Port can be paid by the Ports Authority while the Treasury provides
provisions required for that purpose under exchange rates prevailing at the time, subject to accounting standards and in a manner that would not cause foreign exchange losses or gains to the Ports Authority.

**Recommendations**

i. A policy decision should be taken as soon as possible, after discussions at Ministry Secretary level between the Secretary to the Ministry and the Treasury Secretary.

ii. Committee should be updated of the decision made.

iii. The decision made, should be referred to the Attorney General for scrutiny.

**Reporting progress at present**

i. See (*Annexure 26*) for the letter sent by the Director General of the Ministry of Finance Letter No.PED/S/SLPA/2/8/(i) letter dated 01.03.2018

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**Annexure 25**

2018 ඉදිරිපත්තේ 1900 වර්ෂ යටතේ වාහන අංගයක් මෙහෙයුම් මිලියන් පමණක් සඳහා කාමනා පැහැදිලි නම්වේ සැපියේ ආයතනයේ දකුණු පිළිබඳ ලියා(179,259),(877,826)
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka
172
Mr. Li Ruogu  
President of the Exim Bank of China

Dear Sir

Hambantota Port Development Project Phase II - Supply, Operation and Transfer (SOT) Arrangement

This refers to my recent communications to the Exim Bank of China through His Excellency the Ambassador of China in Sri Lanka on the above subject.

As we have already informed the Exim Bank, the Supply, Operation and Transfer (SOT) arrangement among Sri Lanka Port Authority (SLPA), China Merchant Group Limited (CMHI) and China Harbour Engineering Company Ltd (CHEC) has been concluded with the objective of creating a viable joint venture to develop the Hambanterota Sea Port that was constructed with China Exim Bank funding assistance. This agreement is an essential element of the comprehensive joint development agenda under the frameworks of ‘Mahinda Chintana - Vision for future’, the development strategy of Sri Lanka and the ‘One Belt One Road’, the development strategy of China. We have appraised this project from a broader perspective and not based on short-term commercial considerations of the SLPA and CHEC.

In this background, the SOT was finalized on the understanding of sharing the repayment cost of Hambantota Port Development loans on 65:35 basis between the Joint Venture of CHEC & CMHI and the SLPA respectively. As such, a longer period of repayment terms of the loans will be an essential factor for smooth operation of the two enterprises to make SOT arrangement workable.

The Government has borrowed 2 loans under Preferential Buyer’s Credit (USD 30673 mn) and Government Concessional Loan (USD 147.0 mn) for Phase I and 2 loans amounting to USD 600.35.
mn under Preferential Buyer’s Credit (USD 600 mn), Government Concessional Loan (USD 158.35 mn) and the Buyer’s Credit (USD 51 mn) for Phase II of Hambantota Port Development Project from the Exim Bank of China.

As we explained, the debt servicing cost relating to both Phase I and II of the Hambantota Port Development Project will remain high in the initial 10 year period compared to its operational revenue and this will lead to a negative cash flow during the initial stage of the operation which is a serious concern expressed by the three parties to the Joint Venture. Because of this, they have required a larger period of debt servicing for loans under Phase II and restricting of interest component of the Buyer’s Credit loan under Phase I, for which Government of Sri Lanka agrees in principle. High interest component of the Buyer’s Credit loan under Phase I is a significant burden to Sri Lanka Port Authority since they have to bear the burden of Phase II loans also.

Accordingly, we have suggested the expansion of the repayment terms of said USD 809.53 mn loan amount under Phase II to 30 years with 10 year grace period followed by a further 20 year repayment period. Interests will be paid for the entire 30 years including the grace period. Also we are suggesting to reduce the interest of the Buyer’s Credit loan under Phase I to 2% from the existing rate of 6.3%. Accordingly, the total proposal of the Government to restructure the term of above loans borrowed for Hambantota Port Development is summarized below-

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Amount</th>
<th>Current terms</th>
<th>Proposed terms</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Interest Repayment</td>
<td>Interest Repayment</td>
</tr>
<tr>
<td>Phase I Buyer’s Credit</td>
<td>USD 306.73 mn</td>
<td>6.3% 15 yrs including 4 yr grace</td>
<td>2% 30 yr repayment including 10 yr grace</td>
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<tr>
<td>Govt. Concessional Loan</td>
<td>USD 147.00 mn</td>
<td>2% 20 yrs including 5 yr grace</td>
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<tr>
<td>Phase II</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferential Buyer’s Credit</td>
<td>USD 600.00 mn</td>
<td>2% 20 yrs including 7 yr grace</td>
<td>2% 30 yr repayment including 10 yr grace</td>
</tr>
<tr>
<td>Government Concessional Loan</td>
<td>USD 158.35 mn</td>
<td>2% 20 yrs including 7 yr grace</td>
<td></td>
</tr>
<tr>
<td>Buyer’s Credit</td>
<td>USD 51.00 mn</td>
<td>LIBOR + 4% 15 yrs including 4 yr grace</td>
<td>LIBOR + 4%</td>
</tr>
</tbody>
</table>
As the finalized SOT agreement is expected to be signed during the proposed visit of His Excellency Xi Jinping, the President of Peoples Republic of China to Sri Lanka on 16th September 2014, we would like you to consider the proposed loan re-arrangement to ensure that SOT arrangement functioned smoothly and sustainably. All other issues connected with SOT have been resolved pending a solution to this loan repayment arrangement.

We are firmly remain committed to bring the forthcoming state visit of His Excellency Xi Jinping, President of the People’s Republic of China to Sri Lanka to a landmark event, beneficial to strengthen China-Sri Lanka development partnership and economic cooperation and looking forward for your early reply.

Yours respectfully,

P.B. Jayasundera,
Secretary to the Treasury

Copy to: 1. His Excellency the Ambassador of China in Sri Lanka, Embassy of China, Colombo.
2. Mr. Wang Yingqi, Counsellor, Economic and Commercial Section, Embassy of China, Colombo
3. Mr. Zhu Hongjie, Vice President, EXIM Bank of China
✓4. Secretary, Ministry of Ports and Highways
5. Chairman, Sri Lanka Ports Authority
## Hambantota Port Development Project - Project Cost as at March 2017

<table>
<thead>
<tr>
<th>Description</th>
<th>LKR</th>
<th>USD</th>
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<tbody>
<tr>
<td>Hambantota Port Development Project Phase I</td>
<td></td>
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<tr>
<td>HPDP-Phase I paid to the contractor from loan</td>
<td>35,331,772,712.46</td>
<td>306,726,735.76</td>
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<tr>
<td>HPDP-Phase I Total payments to the contractor SLPA funds</td>
<td>5,897,479,651.88</td>
<td>54,455,039.10</td>
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<tr>
<td>HPDP-Phase I Total payments to the contractor additional loan</td>
<td>18,667,473,027.11</td>
<td>140,334,944.46</td>
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<tr>
<td>Government Contribution -Reimbursed import tax</td>
<td>71,122,728.00</td>
<td>656,719.56</td>
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<tr>
<td>Salaries and other general expenditure</td>
<td>311,699,277.23</td>
<td>2,877,832.66</td>
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<tr>
<td>Interest and commitment charges Phase I</td>
<td>421,310,095.76</td>
<td>3,890,213.26</td>
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<tr>
<td>Other Admin. Building Expenses</td>
<td>70,872,462.62</td>
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<td>Roads and Yards</td>
<td>254,314,153.10</td>
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<td>Relaying pipe line</td>
<td>285,344,377.78</td>
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<td>IPP and other expenses</td>
<td>433,654,041.36</td>
<td>4,004,192.44</td>
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<td><strong>Total Cost Phase I including additional loan</strong></td>
<td>61,744,592,534.90</td>
<td>518,582,983.92</td>
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<tr>
<td>Hambantota Port Development Project Phase II</td>
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<td>HPDP-Phase II paid to the contractor from loan</td>
<td>84,314,203,412.69</td>
<td>635,770,498.61</td>
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<td>Interest and commitment charges</td>
<td>6,393,261,540.24</td>
<td>56,823,940.45</td>
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<td>Land acquisition cost and others - SLPA</td>
<td>116,984,248.84</td>
<td>1,039,767.57</td>
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<tr>
<td><strong>Total Cost Phase II</strong></td>
<td>90,824,449,201.77</td>
<td>693,634,206.63</td>
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<td><strong>Bunkering Facility Tank Farm Project</strong></td>
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</tr>
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<td>Total cost for Bunkering Project (USD 97,468,945.44)</td>
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<tr>
<td>paid to the contractor</td>
<td>12,288,061,825.25</td>
<td>84,797,733.15</td>
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<tr>
<td>Electricity, Water &amp; Other Expenses</td>
<td>99,672,069.49</td>
<td>919,861.21</td>
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<tr>
<td>Interest Expenses -Bank of Ceylon loan</td>
<td>472,584,941.71</td>
<td>3,463,665.21</td>
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<tr>
<td>Pre Commissioning Expenses</td>
<td>938,101,514.36</td>
<td>8,662,063.84</td>
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<tr>
<td>Government Contribution -Reimbursed import tax</td>
<td>2,644,881.00</td>
<td>24,241.80</td>
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<td><strong>Total cost</strong></td>
<td>12,801,014,133.81</td>
<td>98,767,745.21</td>
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<tr>
<td>Loan Repayments</td>
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<td></td>
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<tr>
<td>Phase I - Interest</td>
<td>8,494,801,731.92</td>
<td>60,951,072.08</td>
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<tr>
<td>Phase I - Additional loan - interest</td>
<td>585,880,959.39</td>
<td>4,363,104.87</td>
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<tr>
<td>Bunkering facility</td>
<td>557,367,881.26</td>
<td>4,941,474.64</td>
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<tr>
<td><strong>Total cost</strong></td>
<td>9,637,850,571.97</td>
<td>71,253,651.60</td>
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<tr>
<td>Commitments</td>
<td></td>
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<tr>
<td>Phase II</td>
<td>12,450,000,000.00</td>
<td>116,000,000.00</td>
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<tr>
<td>Retention</td>
<td>170,371,762.50</td>
<td>1,335,811.75</td>
</tr>
<tr>
<td>Taxes for handling equipment</td>
<td>50,000,000.00</td>
<td>331,125.83</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td>12,670,371,762.50</td>
<td>117,535,811.75</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>187,678,618,202.95</td>
<td>1,499,373,749.11</td>
</tr>
</tbody>
</table>

- Land acquisition cost
- Land acquisition cost
- Government Contribution (Land Acquisition)

<table>
<thead>
<tr>
<th>Loaner</th>
<th>Loan Description</th>
<th>Agreement Date</th>
<th>Agreement Amount (USD)</th>
<th>Value amount (CNY)</th>
<th>Interest Rate</th>
<th>Commissions Fee</th>
<th>Other Fees</th>
<th>Currency</th>
<th>别的信息</th>
<th>Outstanding Debt (as at December 31)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese Bank</td>
<td>Sihanoukville Port Development Project - Phase 1</td>
<td>October 30, 2007 (Effective on 2005/04/22)</td>
<td>359.7</td>
<td>356.7</td>
<td>6.78%</td>
<td>0.10%</td>
<td>Mgt Fee 0.1%</td>
<td>Insurance Premium 0%</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>April 24, 2013 (Effective on 2013/07/02)</td>
<td>240 (CNY 1,900)</td>
<td>240 (CNY 1,800)</td>
<td>4%</td>
<td>0.15%</td>
<td>Mgt Fee 0.1%</td>
<td></td>
<td>5</td>
<td>20</td>
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<tr>
<td></td>
<td></td>
<td>September 17, 2013 (Effective on 2013/09/27)</td>
<td>600</td>
<td>600</td>
<td>2%</td>
<td>0.50%</td>
<td>Mgt Fee 0.5%</td>
<td></td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>September 17, 2012 (Effective on 2015/02/12)</td>
<td>145 (CNY 1,000)</td>
<td>145 (CNY 1,000)</td>
<td>2%</td>
<td>0.50%</td>
<td>Mgt Fee 0.5%</td>
<td></td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>September 17, 2012 (Not yet made effective)</td>
<td>51</td>
<td>51</td>
<td>LIBOR 6 Months for USD + 4%</td>
<td>0.50% (No. Com. fee paid as of the end of 2012)</td>
<td>Mgt Fee 0.5%</td>
<td></td>
<td>5</td>
<td>20</td>
</tr>
</tbody>
</table>

Chinese loans-Annual Repayments (USD, M)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Sihanoukville Port Development Project - Phase 1 (2005/04/22)</td>
<td>8.0</td>
<td>7.0</td>
<td>13.8</td>
<td>13.9</td>
<td>13.8</td>
<td>27.6</td>
<td>12.0</td>
<td>27.5</td>
<td>10.2</td>
<td>27.5</td>
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<td>Sihanoukville Port Development Project - Phase 2 (2013/09/27)</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Sihanoukville Port Development Project - Phase 3 (2015/02/12)</td>
<td>5.8</td>
<td>5.9</td>
<td>12.2</td>
<td>12.2</td>
<td>11.9</td>
<td>46.2</td>
<td>11.0</td>
<td>46.2</td>
<td>10.1</td>
<td>46.2</td>
</tr>
<tr>
<td>Sihanoukville Port Development Project - Phase 1 for Auxiliary Work (2013/09/27)</td>
<td>1.3</td>
<td>1.3</td>
<td>2.7</td>
<td>2.7</td>
<td>4.4</td>
<td>8.7</td>
<td>2.4</td>
<td>8.7</td>
<td>2.3</td>
<td>8.7</td>
</tr>
<tr>
<td>Sihanoukville Port Project Total</td>
<td>15.3</td>
<td>14.8</td>
<td>18.8</td>
<td>15.9</td>
<td>28.8</td>
<td>32.5</td>
<td>29.4</td>
<td>36.9</td>
<td>28.3</td>
<td>37.4</td>
</tr>
</tbody>
</table>

Annexure 26

MINISTRY OF FINANCE

Chairman
Sri Lanka Ports Authority

Loans obtained to construct Hambantota Port

We refer to the section 12 of the Finance Act No. 38 of 1971 on Accounts of Public Corporations which permits the Minister of Finance to decide on the form and contains of the annual statement of accounts and statistics of Public Corporations.

As per the Cabinet Decision dated 25.07.2017 on the Cabinet Memorandum No. 17/1588/702/041 dated 20.07.2017 submitted by the Prime Minister, proceeds of the Public Private Partnership (PPP) of Hambantota Port Project (HPP) have been transferred to the Consolidated Fund and thereby General Treasury was entrusted with the responsibility of debt servicing of HPP from the effective date of the Concession Agreement signed between Sri Lanka Ports Authority, Government of the Democratic Socialist Republic of Sri Lanka, China Merchants Port Holdings Company Limited, Hambantota International Port Group (Private) Limited and Hambantota International Port Services (Private) Limited. Hence the General Treasury has paid of USD 72,633.7 and USD 47,541.3 as principal and interest of the loan outstanding respectively from year 2017 to up to now.

It is noticed that Sri Lanka Ports Authority (SLPA) has withdrawn the total loan amount of the HPP from the Financial Statements of 2017. Lease holding property of HPP being an asset of the SLPA, related liabilities should also be recorded in the books of SLPA.

Accordingly, you are hereby instructed to reinstate the loans obtained to construct Hambantota Port back to the Financial Statements of SLPA. Further, repayment request should promptly be advised to General Treasury in accordance with the loan repayment schedule to release cash on time.

Adjusted annual accounts for the year 2017 and 2018 should be resubmitted to all relevant authorities at your earliest.

J M Thilaka Jayasundara
Director General
For Secretary to the Treasury

Copies: 1. Chairman, Committee on Public Accounts
2. Chairman, Committee on Public Enterprises
3. Auditor General, National Audit Office
Sri Lanka Industrial Development Board
(Ministry of Industry & Commerce & Resettlement of Protracted Displaced Person & Cooperative Development)

Date examined: 20 September 2018

Matters Discussed

01. Annual Budget

Annual budgets for years 2015, 2016 and 2017 have not been prepared.

Recommendations

i. When annual budgets are prepared, both income and expenditure should be covered while all documents mentioned below should be included in it.
   - Budgeted cash flow
   - Budgeted income statement
   - Budgeted balance sheet

ii. Whether the targets mentioned in the budget have been met or not, should be monitored and it should be used for overall financial control.

iii. Minutes of the Board meetings pertaining to the approval of annual budgets in 2015, 2016 and 2017 should be submitted to the Committee and the Auditor General within 02 weeks.

Reporting progress at present

i. Through the letter of the Chairman of the Sri Lanka Industrial Development Board, bearing ref. IDB/Fin/Acct/Mis/COPE 2018 dated 14-03-2019, the Committee has been informed that steps have been taken to prepare financial documents as per the recommendation of the Committee and that monitoring activities are carried out to observe whether targets are met. Minutes of the Board meetings pertaining to the annual budgets of 2015 and 2016 have been submitted. (Annexure 27)

02. Staff

Committee inquired about the lack of action taken to recruit permanent employees for the positions that remain vacant.
**Recommendations**

i. Approval of the Department of Management Services should be obtained through the Ministry for the positions that remain vacant.

ii. Details of the education qualifications and the current positions borne by the 09 people employed at tertiary (MM/JM) salary group on contract basis the 25 people employed at secondary (MA) salary group on contract basis should be submitted to the Committee and the Auditor General.

**Reporting progress at present**

Applications have been called to recruit officers to salary group MM/JM while newspaper advertisements have been published to make recruitments to the 25 posts in the MA salary group. A report of the education qualifications of the 25 persons who are currently employed in these posts on contract basis has been submitted to the Committee.

**03. Purchasing scrap material**

It was inquired about the Rs. 5,402,511/- advance paid for the suppliers in the period from year 2009 to 2016 to purchase scrap material since no material had been acquired and the money had not been recovered.

**Recommendations**

i. A written request should be made at Ministry level to recover this money.

**Reporting progress at present**

Letter of the Chairman of Sri Lanka Industrial Development Board bearing ref. IDB/Fin/Acct/Mis/COPE 2018 dated 14-03-2019 has disclosed the following to the Committee:

i. As per the ledger, there is a total of Rs. 4.2 million in unsettled advances for years 2009 and 2010.

ii. This scrap material project was implemented from years 2006 to 2010 by the Ministry of Rural Industries and Self Employment Promotion. When the project was transferred to the Authority in 2010, files have not been handed over in an organized manner to the Authority. Therefore it is difficult to obtain information pertaining to the aforesaid unsettled advances.

iii. Action is being taken to recover a sum of Rs. 890,887.20 recoverable from Sri Lanka Customs.
04. Obtaining Comprehensive Information on Industrial Estates

Although a comprehensive report on the 18 industrial estates was to be submitted the report submitted on 08-05-2013 contained information only about 07 industrial estates. The Committee inquired about this matter.

Recommendations

i. A comprehensive report about all 18 industrial estates coming under the Industrial Development Board should be submitted to the Committee and the Auditor General within a week.

Reporting progress at present

i. The abovementioned comprehensive report on the subject matter has been submitted to the Committee as recommended.

05. Training

In year 2016, Rs. 9,318,026/- had been spent to purchase a rubber injection molding machine that was to be used to provide training necessary to 250 beneficiaries engaged in rubber related industries. The objective was to prepare the samples needed by those engaged in the industry for their products. Committee inquired about the provision of training to only 17 persons in years 2016 and 2017, receiving only an order from a single company for the whole year, the fact that it too was still in the testing stage and the failure to achieve the abovementioned objectives.

Recommendations

i. Overcoming these deficiencies, a future programme that is suitable to those engaged in the industry should be formulated and this plan should be submitted to the Committee and the Auditor General.

ii. Programmes for training, promotion and awareness should be implemented.

iii. A report on the number of people registered at present and the marketing plan should be submitted.

Reporting progress at present

Chairman of the institution reported the following in this regard:

i. Discussions have been made with Litro Gas Company to promote the product manufactured. Samples for the production of the rubber cover on the valve of the gas cylinder has been produced and currently its effectiveness is being studied.
ii. Since the aforementioned rubber cover needs to be fault-free, Litro Gas has informed the institution that real-world testing needs to be carried out at household level. Currently, the injection molding method is being used to produce suitable samples for this. Once the order is placed by Litro Gas, a marketing plan will be prepared.

iii. Over 150 people engaged in the industry and purchasing the rubber mixture have been educated about this special rubber production process by the end of year 2017.

06. Database

Committee inquired whether the Industrial Development Board has a database comprising of important information pertaining to the Board.

Recommendations

i. A detailed report on the following pertaining to the database preparation project carried out with the involvement of the Ministry should be forwarded to the Committee and the Auditor General.
   a. status of expenses that will be incurred
   b. number of stages
   c. benefit gained by the country
   d. information that can be accessed by those engaged in the industry (how many people are engaged in each industry and in which areas do they operate etc.)

Reporting progress at present

i. Chairman has reported that action is under way to prepare a database to cover all industries in various sectors through the Ministry with support from the Department of Census and Statistics.
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

**Sri Lanka Tea Board**  
(Ministry of Plantation Industries)

**Date of Examination: 21 September 2018**

**Matters Discussed**

**01. Board of Directors**

Although the number of members in Board of Directors should be 14 in terms of the Act, it was observed that there were only 11 members in the Board even by 31.08.2018.

The Chairman stated that representatives of trade unions have not been appointed for this vacancy, that such appointments are made by the Minister, and that steps will be taken promptly to fill these vacancies having discussed with the Minister.

**Recommendations**

i. Taking action without delay to fill these vacancies, and to inform the progress of such measures to the Committee within 02 months.

**Reporting the current situation and the progress**

i. Have not been reported

**02. Tea factories that are not used for the tea industry**

Inquiring whether the number of tea factories of this nature that are existing at present has been found out, and whether steps have been taken to modernize the machinery available at those factories.

The Chairman stated that there are 709 registered factories, there are around 20 non-performing factories, the maximum amount paid to a factory by the Board is about Rs. 1,000,000/-, the factories that are not used cannot be brought to working condition with that amount, and that what is most profitable is to improve the production quality of the factories that are functioning at present.

**Recommendations**

i. As this process is outside the action plan, the Committee expressed its dissatisfaction over that process, and recommended submitting to the Committee a report containing the following facts:
   - the amounts allocated in years 2015 – 2017;
   - the number of factories that were selected for modernizing;
   - the number of those that have been completed.

ii. Submitting to the Committee a report containing details about requesting funds from the Treasury.
Reporting the current situation and the progress

i. A report on this matter has been submitted to the Committee by the Secretary to the Ministry of Plantation Industries through the letter dated 17.10.2018 bearing reference MPI/Acc/F12/COPE/42-2018. (Annexure 27)

03. Replantation subsidy

It was observed that a sum of Rs. 40 million had been allocated for paying the tea replanting subsidy for 250 hectares, but Tea Board had spent only Rs. 10 million for 178 hectares of land.

The Chairman stated that this situation has resulted in due to the facts that the required money had not been received by the institute and that there had been certain weaknesses on the part of the institute, and that the outstanding amounts of the previous year can be paid if the required money is received, and the failure to reach the expected target is due to some weakness of the institute.

The Committee was of the view that the audit and management committee is responsible for the occurrence of such a situation.

Recommendations

i. Sending a full report to the Treasury within 2 weeks giving details as to how the sum of Rs. 40 million that had been allocated for replanting will be utilized, and the date by which replanting can be completed.

ii. Sending a copy of that report to the Committee and to the Auditor General.

Reporting the current situation and the progress

i. Have not been reported.

04. Issues related to agreements

Stating that Sri Lanka has signed a free trade agreement with India the Committee enquired about the advantages/disadvantages Sri Lanka has received in exporting tea after signing that agreement, and whether the Board has carried out a study about the Indo – Sri Lanka Free Trade Agreement (ISFTA).

i. The Committee observed that, as United Nations (Sanctions in relation to Iran) Regulations have been published by a gazette extraordinary with regard to exportation of tea to Iran in terms of the United Nations Act No. 45 of 1968, which Sri Lanka has passed, the regulations contained in the gazette exert an impact on business activities.

The Chairman stated that, as per the agreement that has been entered into with India, there are more obstructions than benefits, and the expected result has not
been received, and the officials who had been present representing the Tea Exporters Association stated that the institute has had to face severe difficulties when implementing this agreement.

**Recommendations**

i. Preparing a report by the Ministry in collaboration with Sri Lanka Tea Board containing information about the practical issues faced at present, particularly, the obstructions that have been caused by ISFTA, and the solutions that are proposed for minimizing those obstructions.

ii. Studying this agreement, and including in the report the factors that directly or indirectly affect the tea industry as a result of the agreement, and submitting the report to the Committee before 05th October.

**Reporting the current situation and the progress**

i. The report on this issue has been submitted to the Committee through the letter dated 05.10.2018 bearing reference MPI/Acc/F12/COPE/42-2018 of the Secretary to the Ministry of Plantation Industries. (Annexures 28 & 29)

**05. Global requirement of tea**

The Committee enquired about the volume of global requirement of tea and what percentage of the 300 million kilograms of tea that is produced in Sri Lanka is exported.

The Chairman stated in response that –

- the volume of global requirement of tea is 5 billion kilograms;
- about 95% of the tea produced in this country is exported;
- that is about 5% of the global requirement of tea;
- a five-year plan has been prepared to increase the production of tea in the country, and to newly cultivate tea in 5,000 hectares of lands;
- through this programme, the production of tea will increase by further 15,000 million kilograms; and
- accordingly, foreign exchange amounting to US $ 1.5 billion will be received.

**06. Information about ‘Ceylon Tea’ global promotional campaign**

Enquiring about the ‘Ceylon Tea’ global promotional campaign that had been planned to be implemented during the period from 2015 to 2018 as per the strategic plan that had been prepared using Rs. 8.0 billion out of the tax money in the promotion and marketing fund received from tea exporters up to 3 December 2018.
The Chairman stated in response that it is expected to combine the ‘Ceylon Tea’ trade logo with the ‘lion logo’ and to establish in the global market the fact that ‘Ceylon Tea’ is a Sri Lankan product, and to boost the income through such measures. He further stated that more focus has been given on China under this programme as consumption of black tea is very high in China.

**Recommendations**

i. Sending to the Committee a copy of the feasibility report of this project.

ii. Submitting to the Auditor General and the Treasury a follow-up report stating its financial and physical progress every six months and submitting to the Committee a report on the current status in one month

**Reporting the current situation and the progress**

i. The Strategic Marketing Plan of the Ceylon Tea Project and a detailed report on that plan has been submitted to the Committee through the letter of the Director General of Sri Lanka Tea Board dated 21.11.2018 bearing reference AD/COPE

07. **Creating new posts**

The Chairman of the Board, making his comments about this matter, stated that a new post titled ‘Deputy Director General (Marketing)’ has been created and that approval has been granted for the new post, but the recruitment procedure is yet to be approved, and therefore, it has been sent to the Department of Management Services for approval, and that recruitment will be made to the said position once such approval is received. He further stated that there is a problem related to the job title ‘Deputy Director General (Marketing)’ as the Board is not engaged in any marketing activity.

**Recommendations**

Sending the following documents to the Committee within a period of one week:

i. board paper that had been submitted in relation to creation of this post;

ii. decision of the Board of Directors; and

iii. duties assigned to this post as per the aforesaid decision.

**Reporting the current situation and the progress**

i. A report giving the relevant information has been submitted to the Committee through the letter of the Director General of Sri Lanka Tea Board bearing reference AD/COPE dated 21.11.2018.

08. **Guaranteed price for tea leaves**
It was observed that it had been disclosed through the sample audit examination that the Board had received a sum of Rs. 6,738/- million for year 2015 under the subsidy programme of the government to pay a guaranteed price of Rs. 80/- per kilogram of raw, tender tea leaves, and that, when paying the subsidy, 03 factories had reaped a benefit of Rs. 28,837,190/- due to the payment of the price that had been determined based on the fair price and quality value, instead of paying the difference between the price paid by factory owners per kilogram of tender tea leaves and the price that had been determined based on the quality value.

**Recommendations**

i. Directing the Auditor General to carry out a detailed audit on this matter.

ii. Directing the Director – Finance (Tea Board) to provide to the Auditor General all the information required for the audit and to take steps to complete the audit without delay by extending necessary cooperation for the audit.

**Reporting the current situation and the progress**

i. Have not been reported.

09. **Pesticide chemical analyzer machine**

It was observed that the pesticide chemical composition analyzer and the cp-3800 GAS Chromatography machines that had been purchased in 2009 at a total cost of Rs. 37.72 million had not been utilized until 31 August 2017 as those machines were not in compliance with the specifications and as the suppliers had not given any training on operating the machines, and the Committee enquired about the present situation of those machines.

The Chairman of the Board stated that there are two machines and they are in unusable condition, that an investigation is being carried out into this by the Bribery Commission, that an inquiry is being conducted by the Board as well, and that an internal disciplinary officer has been appointed for that purpose.

The Chairman further stated that, as a final effort, he expects to obtain the approval of the Board of Directors to get a team from the University of Colombo spending a sum of further Rs. 500,000/- to check the machines.

**Recommendations**

Submitting to the Committee the following documents and information:

i. the date on which the internal inquiry was commenced;

ii. details of the investigation officer; and

iii. a copy of the report of the investigation officer.

**Reporting the current situation and the progress**
The Committee has been informed through the letter of the Director General of Sri Lanka Tea Board bearing reference AD/COPE dated 21.11.2018 that Mr. H.U. Harischandra Peiris was appointed on 03.04.2018 as the Preliminary Inquiry Officer to conduct this internal inquiry, but he has informed the Director General of Sri Lanka Tea Board that the inquiry cannot be commenced due to the difficulty in separating the documents required for the investigation on a prevision decision as the file relating to the transaction had been submitted to the Commission to Investigate Allegations of Bribery or Corruption.

10. Quality and the reputation of produced tea

Although it is a timely requirement that tests are carried out about pesticide residues in produced tea that is exported from the country in order to maintain the quality and the reputation of the produced tea, it was observed that the Board had not taken action to carry out such tests through the laboratories of the Board, and the Committee enquired about the present situation of the issue related to adding sugar to tea.

The Chairman stated that not carrying out tests about pesticide residues is a matter related to the issue of the two machines mentioned above, that steps have been taken to solve the problem of adding sugar to tea, that a methodology has been developed by the Tea Research Institute to measure the sugar content in tea and it indicates the sucrose, glucose and lactose contents in tea, that there are no international norms for this, and that the said methodology will be implemented in the near future.

The Committee emphasized the need for the Board to maintain inter-ministerial relationships with the Ministry of Trade, Ministry of Finance, Ministry of External Affairs and the Ministry of Tourism in order to implement such activities, and it was the opinion of the Committee that the Board does not seem to have followed the proper path in collecting information.

Recommendations

i. Preparing a short-term plan about the future activities of the Board.

Reporting the current situation and the progress

i. Have not been reported.
<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Allocation (Rs. Mn.)</th>
<th>SLTB Received Amount (Rs. Mn.)</th>
<th>Factory Modernization Payments (Rs. Mn.)</th>
<th>Subsidy Schemes (FMSS) Payments (Rs. Mn.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>71</td>
<td>71</td>
<td>10.08</td>
<td>25.42</td>
</tr>
<tr>
<td>2016</td>
<td>70</td>
<td>70</td>
<td>60.91</td>
<td>44.57</td>
</tr>
<tr>
<td>2017</td>
<td>80</td>
<td>17.5</td>
<td>7.83</td>
<td>9.66</td>
</tr>
<tr>
<td>2018 (Up to Sept)</td>
<td>83</td>
<td>18</td>
<td>3.37</td>
<td>14.63</td>
</tr>
</tbody>
</table>

**Annexure 28**
Export of Ceylon Tea to India under the Indo/Lanka Free Trade Agreement

Preamble

The Free Trade Agreement between Sri Lanka & India (ISFTA) was signed in December 1998 and came into force in March 2000. Within this pact, India has granted a quota of 15 MKgs of Ceylon Tea per annum at a concessionary duty rate of 7.5%. At the beginning of the ISFTA, India only allowed Mumbai & Vishakhapatnam as entry points. Then, Cochin & Kolkata was added. Thereafter India opened out all the ports for Ceylon Tea under the agreement. Although it was believed, that limitation of entry points seriously hampered the accessibility of Ceylon tea shipments to India under the FTA, it has now proved as a wrong assumption since opening out of entire territory of India has not changed the status quo in respect of off-takes.

Performance

The actual performance of Ceylon Tea exports to India under the Indo/Lanka FTA is tabulated below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity Export - Kg</th>
<th>Un-utilized Quota - Kg</th>
<th>Utilized %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>459,207.43</td>
<td>14,540,792.57</td>
<td>3.06</td>
</tr>
<tr>
<td>2001</td>
<td>474,340.49</td>
<td>14,525,659.51</td>
<td>3.16</td>
</tr>
<tr>
<td>2002</td>
<td>458,539.70</td>
<td>14,541,460.30</td>
<td>3.06</td>
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<td>2003</td>
<td>171,288.40</td>
<td>14,828,711.60</td>
<td>1.14</td>
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<tr>
<td>2004</td>
<td>172,952.61</td>
<td>14,827,047.39</td>
<td>1.15</td>
</tr>
<tr>
<td>2005</td>
<td>99,932.82</td>
<td>14,900,067.18</td>
<td>0.67</td>
</tr>
<tr>
<td>2006</td>
<td>35,719.73</td>
<td>14,964,280.27</td>
<td>0.24</td>
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<td>2007</td>
<td>263,602.99</td>
<td>14,736,397.01</td>
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<td>2008</td>
<td>271,499.94</td>
<td>14,728,500.06</td>
<td>1.81</td>
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<td>2009</td>
<td>289,256.06</td>
<td>14,710,743.94</td>
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<td>2010</td>
<td>92,156.75</td>
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<td>2011</td>
<td>96,224.49</td>
<td>14,903,775.51</td>
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</tr>
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<td>2012</td>
<td>231,435.54</td>
<td>14,768,564.46</td>
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<td>2013</td>
<td>94,322.68</td>
<td>14,905,677.32</td>
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</tr>
<tr>
<td>2014</td>
<td>1,499,415.96</td>
<td>13,500,584.04</td>
<td>10.00</td>
</tr>
<tr>
<td>2015</td>
<td>3,139,463.90</td>
<td>11,860,536.10</td>
<td>20.93</td>
</tr>
<tr>
<td>2016</td>
<td>888,328.27</td>
<td>14,111,671.73</td>
<td>5.92%</td>
</tr>
<tr>
<td>2017</td>
<td>128,440.28</td>
<td>14,871,559.72</td>
<td>0.86%</td>
</tr>
<tr>
<td>2018 (Up to 11th Sep.)</td>
<td>144,275.60</td>
<td>14,855,724.40</td>
<td>0.96%</td>
</tr>
</tbody>
</table>

The above statistical data clearly reflects that maximum target achieved is roughly 20% of the quota during the year 2015 and the second largest being 10% in 2014 and the third at 6% during 2016. The main reason for this sudden spur was the arrangement Indian tea exporters had with Sri Lanka tea exporters to utilize the Indian channel to Iran under tight sanctions. India continued to supply goods and services to Iran under a barter agreement to set-off against purchases of Iranian oil where Indian Rupees were cleared with Iranian Riyals avoiding the international banking system. Since Iran is a traditional buyer of low grown tippy type of teas which is vogue in India, they purchased Ceylon Tea and shipped to Iran. Thus, the actual utilization of the quota has never exceeded even 5% of 15 MKgs.
Weaknesses and Barriers

- The Indian domestic market is predominantly of the CTC type while Sri Lanka produces almost 95% of the Orthodox type.

- The local Indian mass market is highly price conscious. The Indian teas, particularly the CTC types which are mainly in demand in the domestic segment is much cheaper than Orthodox teas supplied from Sri Lanka.

- In comparison to the local Indian tea brands, most of the Sri Lanka tea brands are unknown. Further, few of the Indian major brands such as Tata Tea, Brooke bond, Tetley, Lipton, Kannan Devan, Wagh Bakri etc. are dominating the domestic market. The price advantage is giving the Indian brands a further edge.

- The rules of origin criteria under the Indo/Lanka FTA are also not helping the cause for Ceylon Tea. It needs to fulfill two important pre-requisites listed below:

  1. Achieving a 35% minimum local value addition in the case of imported tea blended with Ceylon Tea or in the alternative achieving a 25% minimum local value addition in the case of imported Indian teas blended with Ceylon Teas.

  2. The existing criteria stipulates that the Customs Code (0902) corresponding to tea has to shift at the 4 digits HS heading level itself. This is practically impossible for an agricultural commodity such as tea where the shift is possible only under the HS code at 6 digits or 8 digits.

- As a close market for many decades, the nature of the Indian economy is strongly export driven but not import oriented in comparison to Sri Lanka. Therefore, imported tea to the domestic market is strongly restricted by most industry members in India.

- Flavoured teas and herbal teas have to undergo a very cumbersome procedure to obtain clearance at Indian ports.

Conclusions/Recommendations

1. To request the Indian Authorities to consider a change in the existing rules of origin criteria where the four digits HS code could be extended to 6 digits and 8 digits enabling the export of multi origin teas as well as re-export of Indian teas after value addition.

2. To seek a revision from the un-achievable quota of 15MKgs at 7.5% duty to a more realistic 10MKgs (or 7.5MKgs) quota at Zero duty level.

3. If the above two requests are acceptable by the Indian side, it will be useful to encourage the private sector to establish Ceylon Tea Saloons/Boutiques/Kiosks/Houses in major Indian cities with the support of Sri Lanka Tea Board under a promotional Scheme.
Annexure 29

SRI LANKA TEA TRADE WITH IRAN UNDER A SANCTION REGIME

Iran is in a major economic crisis due to sanctions by the West. The new sanctions introduced by USA are expected to come into effect from November 5th 2018. The current situation is anticipated to be far worse than the previous sanction period. Even countries such as Japan, South Korea and India which continued to import oil from Iran during the previous sanction period have been requested by USA to stop purchases from Iran after 5th of November 2018.

During recent years, only India was at an advantage to trade with Iran in view of a “oil for food” barter arrangement. Therefore, Indian tea exports to Iran are showing an upward trend while tea exports from Sri Lanka and Kenya reflecting a downward trend. The pattern is clearly shown in the table below.-

<table>
<thead>
<tr>
<th>Country</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Total Qty (MT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sri Lanka</td>
<td>29,564</td>
<td>33,598</td>
<td>27,039</td>
<td>10,950 (1st Half)</td>
</tr>
<tr>
<td>India</td>
<td>20,200</td>
<td>23,900</td>
<td>28,050</td>
<td>7,330 (1st Qtr.)</td>
</tr>
<tr>
<td>Kenya</td>
<td>3,300</td>
<td>5,118</td>
<td>3,111</td>
<td>956 (1st Qtr.)</td>
</tr>
</tbody>
</table>

The outstanding payments due from Iran for exports of Ceylon Tea during 2016, 2017 and 2018 are understandably substantial. Hence, many of the regular Ceylon Tea shippers to Iran are maintaining a go slow approach. It is therefore, prudent for Sri Lanka to discuss with Iran and agree on a workable solution where the banking system has to be avoided. If not, the tippy type of teas particularly patronize by Iran which has already lost a degree of demand at the Colombo Tea Auctions will deteriorate further. The prices of the Iranian types at the auction are already getting discounted.

In view of the foregoing, the most urgent and rational way forward is to discuss with the Iranian side and arrive at an arrangement to re-pay the outstanding payment of US$ 251 Million due to National Iranian Oil Company from Ceylon Petroleum Corporation through the export of Ceylon Tea.

Lucille Wijewardena
Chairman
Sri Lanka Tea Board
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

Annexure 30

GLOBAL CAMPAIGN FOR CEYLON TEA

Sri Lanka Tea Board submitted a proposal to the Cabinet in the year 2011 to launch a Global promotional campaign to rebuild the brand name with an available budget of USD 9.00 million. Accordingly a ‘Cabinet Appointed Negotiating Committee’ (CANC) and a ‘Technical Evaluation Committee’ (TEC) was appointed to select a suitable agency to handle the Global promotional campaign. Bids were called internationally for covering the following activities.

1. Creation part of the campaign and production materials required.
2. Public Relations campaign
3. Media component which includes media planning, scheduling and media buying

Even though the bids had been called for a single agency to handle the above three components with a budget of USD 9.00 million, during the procurement process it was decided by CANC and TEC to retain the media components of the tender with the Sri Lanka Tea Board and offer the creation and the production part of the campaign to one Bidder and the PR campaign to another bidder.

Accordingly CANC and TEC proposals were submitted to the Cabinet and the approval of the Cabinet of Ministers was received on 5th April 2015 to offer the bids as given below.

1. To award Phoenix O&M (Pvt) Ltd to undertake the creative of the “Above The Line (ATL)”, “Below The Line (BTL)” & Social Media work of the Global campaign within the identified seven regions namely Russia/CIS Region, Middle East/Gulf region, African Region, Far East Oceania Region, European Region, Americas Region, South Asia Region with a total budget of USD 2.26 million for the first twelve months.

2. To award "Grey First Serve Advertising (Pvt); Ltd" to undertake the Public Relations work of the Global Promotional campaign within the identified seven regions (the seven regions stated in 1 above) with a total budget of USD 1.50 million for the first twelve months.

Based on the Cabinet approval, the creative and the production part of the campaign is to be awarded to Phoenix O&M (PVT) Ltd for the seven regions for a sum of USD 2.26 million and Public Relation campaigns for a sum of USD 1.50 million to Grey First Serve Advertising (PVT) Ltd. Out of the total campaign budget USD 9.00 million a provision of USD 3.76 million will be utilized by the above two companies and the balance budget of USD 5.24 million will be allocated to SLTB for media planning, scheduling and buying.

Creation part of the campaign

Accordingly, the tender was awarded to Phoenix O&M (Pvt) Ltd. on 19th June 2015 for the creative part of the campaign due to the delay in Media planning and Scheduling.

Due to the delay of Media Planning and buying, Sri Lanka Tea Board had to extend the agreement between SLTB and Phoenix. Hence, SLTB requested approval for extension from the Cabinet. The approval from Cabinet was received on 22.08.2017. Thereafter Phoenix O&M (Pvt) Ltd extension was extended till 05.11.2018. The Following creatives have been completed by Phoenix O&M with some of the commitments on-going and yet to be completed:
<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Unit US $</th>
<th>Units</th>
<th>Total - US $</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.1</td>
<td>TV ad</td>
<td>795,452</td>
<td>1</td>
<td>795,452</td>
<td>Completed</td>
</tr>
<tr>
<td>0.2</td>
<td>Social Media - Concept Development</td>
<td>140,000</td>
<td>1</td>
<td>140,000</td>
<td>Pending</td>
</tr>
<tr>
<td>1.1</td>
<td>ATL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1.1</td>
<td>TVC Language Adaptation</td>
<td>10,000</td>
<td>7</td>
<td>70,000</td>
<td>Completed Russian Version</td>
</tr>
<tr>
<td>1.1.2</td>
<td>Press</td>
<td>1,515</td>
<td>7</td>
<td>10,605</td>
<td>Completed</td>
</tr>
<tr>
<td>1.1.3</td>
<td>Language Adaptation</td>
<td>758</td>
<td>7</td>
<td>5,306</td>
<td>Completed Russian Version</td>
</tr>
<tr>
<td>1.1.4</td>
<td>Radio Spot</td>
<td>1,515</td>
<td>7</td>
<td>10,605</td>
<td>Pending</td>
</tr>
<tr>
<td>1.1.5</td>
<td>Language Adaptation</td>
<td>1,515</td>
<td>7</td>
<td>10,605</td>
<td>Pending</td>
</tr>
<tr>
<td>1.1.6</td>
<td>Brochures</td>
<td>2,272</td>
<td>7</td>
<td>15,904</td>
<td>Completed</td>
</tr>
<tr>
<td>1.1.7</td>
<td>Language Adaptation</td>
<td>1,515</td>
<td>7</td>
<td>10,605</td>
<td>Pending</td>
</tr>
<tr>
<td>1.2.1</td>
<td>Souvenir ad</td>
<td>378</td>
<td>7</td>
<td>2,646</td>
<td>Completed</td>
</tr>
<tr>
<td>1.2.2</td>
<td>Language Adaptation</td>
<td>227</td>
<td>7</td>
<td>1,589</td>
<td>Completed Russian Version</td>
</tr>
<tr>
<td>1.2.3</td>
<td>Logo</td>
<td>758</td>
<td>7</td>
<td>5,306</td>
<td>Completed</td>
</tr>
<tr>
<td>1.2.4</td>
<td>Pennants</td>
<td>303</td>
<td>7</td>
<td>2,121</td>
<td>Completed</td>
</tr>
<tr>
<td>1.2.5</td>
<td>Language Adaptation</td>
<td>227</td>
<td>7</td>
<td>1,589</td>
<td>Pending</td>
</tr>
<tr>
<td>1.2.6</td>
<td>Poster Design</td>
<td>378</td>
<td>7</td>
<td>2,646</td>
<td>Completed</td>
</tr>
<tr>
<td>1.2.7</td>
<td>Language Adaptation</td>
<td>303</td>
<td>7</td>
<td>2,121</td>
<td>Pending</td>
</tr>
<tr>
<td>1.2.8</td>
<td>Leaflet</td>
<td>242</td>
<td>7</td>
<td>1,694</td>
<td>Pending</td>
</tr>
<tr>
<td>1.2.9</td>
<td>Language Adaptation</td>
<td>151</td>
<td>7</td>
<td>1,057</td>
<td>Pending</td>
</tr>
<tr>
<td>1.2.10</td>
<td>Designs for Souvenir Items</td>
<td>265</td>
<td>7</td>
<td>1,855</td>
<td>One set completed</td>
</tr>
<tr>
<td>1.2.11</td>
<td>Language Adaptation</td>
<td>189</td>
<td>7</td>
<td>1,323</td>
<td>Pending</td>
</tr>
<tr>
<td>1.3.1</td>
<td>Product upgrade/revamp</td>
<td>5,000</td>
<td>7</td>
<td>35,000</td>
<td>Pending</td>
</tr>
<tr>
<td>1.3.2</td>
<td>Web Banner</td>
<td>100</td>
<td>7</td>
<td>700</td>
<td>Pending</td>
</tr>
<tr>
<td>1.4.1</td>
<td>Consumer Engagement site Production</td>
<td>100,000</td>
<td>7</td>
<td>700,000</td>
<td>Pending</td>
</tr>
<tr>
<td>1.4.2</td>
<td>Digital Production</td>
<td>15,000</td>
<td>7</td>
<td>49,500</td>
<td>Pending</td>
</tr>
<tr>
<td>1.4.3</td>
<td>Agency Retainer Fee</td>
<td>54,540</td>
<td>7</td>
<td>381,780</td>
<td>Paid – 50%</td>
</tr>
</tbody>
</table>

**Public Relations campaign**

The international representatives from Grey First Serve Advertising made a PowerPoint presentation on the activities that they are planning to conduct under PR campaign to PMC Subcommittee and the SLTB Team. However, sufficient details were not provided. PMC subcommittee discussed the PR plan and budget indicated in their PR proposal and had several meetings with Grey First Serve Advertising (Pvt) Ltd and requested to provide a detailed activity plan with few revisions along with the cost breakdowns. After several discussions with Grey First Serve Advertising (Pvt) Ltd, PMC Subcommittee decided to turn down their plan because of the insufficient improvements.
As per the Cabinet Decision of 6th April 2016 in respect of the PR Campaign on Cabinet Paper No. 16/0607/726/012 relating to the Memorandum dated 29th March 2016 by the Minister of Plantation Industries on ‘Selection of an Advertising Agency for Global Promotion campaign for Ceylon Tea’, a sub-committee was appointed comprising of Mr. R. Paskaralingam, Advisor to the Minister of National Policies and Economic Affairs (Chairman), Mr. J. Charitha Ravelatte, Senior Advisor to the Hon. Prime Minister (Member), Mr. Dilhan C. Fernando, Agency for Development, Ministry of Development Strategies & International Trade (Member), Mr. Rohan Pethiyagoda, Chairman, Sri Lanka Tea Board (Member) and Mr. S. A. Siriwawardhana, Director General, Sri Lanka Tea Board (Member). Having considered all the available options, the committee recommended that the award of the PR component of this procurement be cancelled and instead, Sri Lanka Tea Board be directed to design and implement a PR campaign to suit the needs of the Global Campaign, under the authority of the Board of Directors and the guidance of the Promotion & Marketing Committee, subject to the procurement guidelines of the government. This recommendation has been forwarded to Secretary/Plantation Industries to be submitted to Cabinet for a final decision.

Accordingly, following activities were done by SLTB in selected markets after the Cabinet decision:

<table>
<thead>
<tr>
<th>PR Event</th>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Promotion for Ceylon Tea through Visit of Tea House Times Publisher and Writing of Special Feature Articles</td>
<td>22nd – 31st Jan, 2017</td>
<td>As part of the Global Campaign for Ceylon Tea, two journalists of the Publisher of the “Tea House Times Magazine” in USA were invited to Sri Lanka in January to meet tea industry stakeholders, visit tea growing areas, witness manufacturing process and also to create awareness of all other positive aspects of Ceylon Tea. Full page advertisements on Ceylon Tea were published free of charge on each issue of the “Tea House Times Magazine” for the year 2017. Number of blogs and articles written on Ceylon Tea were published on social media and other Medias as well.</td>
</tr>
<tr>
<td>Two Journalist from Singapore Visited Sri Lanka</td>
<td>13th to 19th February, 2017</td>
<td>Publish Ceylon Tea articles in future issues of Tea &amp; Coffee Trade Journal in Singapore</td>
</tr>
<tr>
<td>Special Promotion for Ceylon Tea through Visit of Journalists from 9 Countries</td>
<td>6th -14th August, 2017</td>
<td>Under the Visiting Journalists program in 2017 there were 14 journalists from Russia, USA, Canada, Saudi Arabia, Turkey, Kuwait, Iran, China and UK visited Sri Lanka during the Celebration of 150 years for Ceylon Tea in August. Since then, there were number of paper articles, newspapers, magazines, e-versions etc. on Ceylon Tea published in print Media and social Media.</td>
</tr>
<tr>
<td>Visit of NTV TV Crew in Russia</td>
<td>17th to 24th December, 2017</td>
<td>A TV crew of NTV TV in Russia visited Sri Lanka and produced a 42 minute documentary about Sri Lanka Tourism and Ceylon Tea</td>
</tr>
<tr>
<td>Business Networking Breakfast Meeting at North Sydney Harbor view Hotel, Australia.</td>
<td>12th September 2017</td>
<td>The Consulate General Office in Sydney in collaboration with the Sri Lanka Tea Board organized a Business Networking Breakfast Meeting Event at North Sydney Harbor View Hotel in Sydney. The main objective of the event is promoting Ceylon Tea to Media organizations, PR companies, and Travel and publication companies in Australia.</td>
</tr>
</tbody>
</table>
Media planning, scheduling and buying

SLTB formulated the tender to select a Consultancy Agency for Media Planning, Scheduling and Buying for Global Campaign for Ceylon Tea Promotion. Accordingly, Treasury appointed a Cabinet Appointed Procurement Consultancy Committee for selecting a suitable consultancy company.

The tenders were called on 21st May 2017 by Cabinet Appointed Consultants Procurement Committee for Consultancy Services for Media Planning, Scheduling and Buying for the Global Campaign on Ceylon Tea Promotion in Russia/CIS, Middle East/Gulf, Africa, Far East Oceania, Europe, Americas and South Asia for three years period. Five companies had responded to the EOI calling adviserment out of which three companies qualified to submit bids based on the basic criteria given on the advertisement. As a result, Request for Proposals (RFP) were issued on 21.07.2017 and closed on 14.08.2017.

Sri Lanka Tea Board submitted a proposal to the Cabinet on 10.11.2017 for the selections of an appropriate agency for the Consultancy Services for Media Planning, Scheduling and Buying for the Global promotional campaign for ‘Ceylon Tea’ and cabinet approval was received on 21.11.2017.

DentsuGrants (Pvt) Ltd was selected to undertake the Consultancy Services for Media Planning, Scheduling and Buying at a total budget of LKR 219,899,960/- million for a three years period from 21st March 2018 to 20th March 2021. Accordingly, the awarding letter was issued on 20th December 2017 and agreement was signed on 21st March 2018 by Secretary Ministry of Plantation Industries on behalf of Sri Lanka Tea Board.

Accordingly the following activities have been initiated by DentsuGrants already:

1. Media Survey
2. Media Planning

Henceforth PMC proposed to reduce the 25 target markets identified in 2012 in view of the prevailing ground conditions in key destinations and focus on only twelve markets for the first phase during 2018/2019 and the rest will be considered during the second phase of the global campaign. The 12 identified markets are given below under two slabs based on priorities.

Priority (I) – Russia, China & Japan
Priority (II) – Iran, Turkey, Saudi Arabia, Germany, Austria, UAE, USA, Ukraine, Chile

The required funds for the campaign are sourced from the Promotion & Marketing Levy established under SLTB. At the time the campaign was planned and the bids were called in the year 2012, the SLTB Promotion & Marketing fund had only USD 9 million for the campaign and it was planned accordingly. However to launch an efficient campaign, with the accumulated fund as of date, it is required to
increase the allocation for media buying of the campaign. This amount is already excluded from the tender. Therefore a sum of LKR 4.25 billion has been provided under media buying and responsibility entrusted to the SLTB for a period of 03 years.

Human Capacity Building for Global Campaign

The promotion team recruited as per the current public sector salary scales and the eligible qualifications relevant to the applicable Scheme of Recruitment of Sri Lanka Tea Board which is handling the day to day activities would not be in a position to disseminate all the necessary programs under a global campaign of this nature. Moreover, additional expertise will be needed to design and implement a broad marketing campaign. Hence, it is proposed that a marketing cell be established at the Sri Lanka Tea Board consisting of human resources with the relevant background and experience to support the current team in the Promotion Division.

Time Plan for the Global Campaign

<table>
<thead>
<tr>
<th>Time</th>
<th>Duration</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q 2019</td>
<td></td>
<td>Commencement of Global advertising Campaign in Russia &amp; Japan</td>
</tr>
<tr>
<td>2Q 2019</td>
<td></td>
<td>Commencement of Global advertising Campaign in China &amp; Saudi Arabia</td>
</tr>
<tr>
<td>3Q 2019</td>
<td></td>
<td>Commencement of Global advertising Campaign in USA &amp; Turkey</td>
</tr>
<tr>
<td>4Q 2019</td>
<td></td>
<td>Commencement of Global advertising Campaign in Germany, Ukraine &amp; Australia</td>
</tr>
<tr>
<td>1Q 2020</td>
<td></td>
<td>Commencement of Global advertising Campaign in Chile</td>
</tr>
<tr>
<td>2Q 2020</td>
<td></td>
<td>Commencement of Global advertising Campaign in Iran</td>
</tr>
<tr>
<td>3Q 2020</td>
<td></td>
<td>Commencement of Global advertising Campaign in UAE</td>
</tr>
<tr>
<td>4Q 2020</td>
<td></td>
<td>Mid Performance Evaluation</td>
</tr>
<tr>
<td>3Q 2022</td>
<td></td>
<td>End of the Campaign and Post Evaluation</td>
</tr>
</tbody>
</table>

Brand Promotion Scheme

Under the global promotion campaign, the awareness of Ceylon Tea will be increased. The link between Ceylon Tea and Quality Symbol of Lion Logo and Sri Lanka also be developed. The effects and benefits of the above campaign should be passed to the individual local tea brands and the introduction of the brand promotion subsidiary scheme will facilitate process. Sri Lanka Tea Board introduced a brand promotional subsidy scheme for 2018/2019. As per the scheme, Pure Ceylon Tea brands which carry Lion Logo will be promoted by providing matching grants (50% of the promotional spend). Only Sri Lankan owned tea brands which have been registered in Sri Lanka by the Director General, National Intellectual Property Office, are eligible for promotional assistance under this scheme. The scheme will be funded from the Promotion and Marketing Levy contributed by tea exporters under Gazette No. 1677/14 of 27 October, 2010. A budgetary provision of Rs. 500 million has been allocated for 2018/2019.
Matters discussed

01. Absence at the meeting of the Committee

Absence of Mr. H.M.B.P. Herath, Director General of the Department of Sports Development, who is in charge of all the sports clubs functioning under the Football Federation of Sri Lanka, and Mr. I.P. Wijeratne, Director (Sports), at the meeting of the Committee.

Secretary to the Ministry of Provincial Councils, Local Government and Sports stated that the above named officers have informed in writing that they are unable to attend the meeting of the Committee since they have attended to supervision of the activities of the 44th National Sports Festival held in Polonnaruwa on 11.10.2018 under the patronage of His Excellency the President.

Recommendations

i. Referring the matter of the absence of the Director General to the Committee on Ethics and Privileges, and calling the relevant officer before that Committee.

Reporting the current situation and the progress

i. The Secretary to the Committee has informed the Committee on Ethics and Privileges of this matter in order to take action regarding this.

02. Observations about the documents that should be maintained by the institute

i. Corporate plan

It was observed that, although a corporate plan has been prepared for the period up to 2030, it has not been approved by the Executive Committee.

ii. Action plan

It was observed that, although an action plan has been prepared for years 2017 and 2018, it has not been approved by the Executive Committee.

iii. Budgetary control

It was observed that budgets approved by the Executive Committee had not been prepared for years 2017 and 2018.

iv. Internal Audit
It was observed that an Internal Audit Unit had not been established for Football Federation of Sri Lanka for the years 2015, 2016 and 2017, and inquiring about the failure of the institute to send the relevant documents to the Committee as directed at the previous meeting of the Committee. An action plan that had been submitted to the Auditor General by the Federation was tabled at the meeting, and the Committee expressed its strong dissatisfaction about the standard of the action plan.

**Reporting the current situation and the progress**

i. Have not been reported.

**03. Financial Irregularities**

Enquiring whether the President and the chief secretary of the Federation have submitted an affidavit stating that the former President of the Federation, who had been accused of financial irregularities, is guiltless and the financial frauds referred to in this report have not been committed, and it had been observed that advice of the Attorney General had not been received as at the date as per the report obtained from the Inspector General of Police in terms of the recommendation issued by the Committee, and the Committee enquired whether any follow-up has been done in this regard.

The President stated that he had submitted a statement to the court, and that the said statement did not contain the facts mentioned here, and that he does not remember the facts contained in that statement.

The Committee expressed its strong dissatisfaction that the Director General was not present before the Committee to answer these questions.

**04. Altering the report of the Auditor General**

A false report that had been prepared fraudulently by removing 5 quantitative audit observations in the report of the Auditor General on the financial statements of the Football Federation of Sri Lanka for year 2016 had been submitted to the Annual General Meeting of the Federation in 2017.

The Chairman stated in response that –

- it was discovered within the first month itself after the election of office bearers on 01.07.2017 that a financial fraud was taking place there;
- an investigation was carried out then by going to Standard Chartered Bank, the banker of the Federation;
- it was discovered through the investigation that a financial fraud had taken place;
- a preliminary inquiry was carried out and a complaint was lodged with the Criminal Investigations Department in 2017;
- accordingly, a case has been filed, and is being heard at present;
• carrying out a full investigation into this has been assigned to a firm named KPMG;
• according to the report that has been presented by now, a financial fraud of Rs. 14 million has taken place, and this amount is only for year 2017; and
• that a situation has arisen where investigations cannot be carried out with regard to year 2016 since the other banker, Hatton National Bank, has failed to provide the necessary information.

05. Report of the Deputy Inspector General

As it has been informed that advice of the Attorney General has not been received so far in this regard, enquiring about the follow-up activities that have been carried out at ministerial level.

The Secretary to the Ministry stated that the Ministry has been informed that the case has been inserted, and that arrangements have been made to meet the Attorney General to discuss this matter, and that it has been confirmed through the report of the five-member committee appointed in 2015 that this is a financial fraud that had been committed with the involvement of the Manager – Finance.

Recommendations

i. Making a ministerial level intervention in this regard, and taking proper action against preparation of false documents and against financial irregularities that have been committed.

Reporting the current situation and the progress

i. Have not been reported.

06. Report on preparing false documents and follow-up

It was observed that the report of the Auditor General on the aforesaid fraud had been sent on 16.06.2017 and it had been sent in the name of the President, and enquiring about the action that was taken against the Manager – Finance after this fraud had been discovered.

The President informed the Committee that the Auditor General was informed of this matter, and that fake documents had been prepared in this manner in order to prevent the financial fraud committed by the Manager – Finance from coming to light, and that he (the President) had not received the report of the Auditor General dated 16.06.2017, and all these acts had been committed by the Manager – Finance without the knowledge of the President, and even the signature of the President had been placed fraudulently, and that he had complained to the police against such acts.
**Recommendations**

Submitting to the Committee a report containing the following information within 2 weeks:

i. The procedure that the Manager – Finance had followed in altering these audit reports;

ii. The action that has been taken by the President until interdicting the Manager – Finance including the following information as well:
   - whether it has been complained to the police;
   - if so, a copy of the complaint;
   - what is contained in the complaint;
   - other facts that have been presented by the President including the relevant documents; and
   - copies of affidavits.

iii. The report of the forensic audit conducted by FIFA in connection with tsunami funds;

iv. Informing the Institute of Chartered Accountants of the information about the said Manager – Finance; and

v. The manner in which the whole process related to preparing of fake documents had been carried out.

**Reporting the current status and the progress**

i. Have not been reported.

07. **The report entitled “FFSL Secretary General’s Report on the matters relating to the Audit Query dated 30.04.2015” that was submitted to the Auditor General on 27.11.2017 by the Secretary of the Federation.**

Enquiring as to who the instructions for preparing this report were received from, and observing that the Chief Secretary had stated at the end of the report “We wish to state that in conclusion, that there were no fraudulent transaction, all the accounts were duly audited by the ADG and duly passed at the FFSL AGM”, and enquiring as to how some other committee can decide that the observations of the Auditor General regarding a matter that has a cause of action are not correct, and observing that there is no power to do so, and that this report has been sent to the Auditor General, Solicitor General and to various other institutes.

The secretary of the Federation stated that such instructions were given by the executive committee, and the decision of the executive committee can be presented, and he further stated that the said report was prepared by a three-member committee of which he himself was a member.

The Committee stated that the report that was sent to the Auditor General on 27.11.2017 by the Chief Secretary of the Federation is not acceptable to the Committee, and the conclusions in the report that had been prepared based on the audit queries dated 30.04.2015 and that was sent to the Auditor General through
the letter dated 27.11.2017 by the Secretary of the Football Federation were considered by the Committee. Since it relates to the matters that were discussed by the Committee on 09.08.2016 under the topic “Irregularities that have taken place in utilizing the financial provisions received from various institutes”, and since the Secretary to the Ministry has referred this matter for legal action as per the recommendations of that committee and since the institute has no powers to prepare a report on a sub judice matter, and since such matters should be revealed during the judicial proceedings, the Committee stated that it ignores the aforesaid report, and it was the view of the Committee that the executive committee does not have any power to issue such orders regarding a matter that has been referred for judicial action in terms of the Sports Law, and this is a total disregard of the Auditor General’s reports and the recommendations of the Committee.

**Recommendations**

i. Informing the Attorney General to extend cooperation to expedite these judicial proceedings by giving the recommendations of the Attorney General regarding this matter early and directing the secretary to the Committee to send copies of that to the following officers:

- Secretary to the Ministry;
- President of the Football Federation; and
- Auditor General.

ii. Studying the report prepared by the chief secretary, and taking action against the officials who took steps to submit the report.

**Reporting the current status and the progress**

i. Have not been reported.
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

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Sri Lanka Mahaweli Authority

(Ministry of Mahaweli Development and Environment)

Date investigated: 10th October 2018

Matters Discussed:

01. **Human Resource Management**

Observations were made that the approved cadre of the higher management level of the staff is 33 and there are 18 vacancies and 2 remains excess. There are 94 vacancies in Middle management level and 621 operation and management vacancies while 14 are in acting positions of high level management posts. Inquiries were made with regard to the reasons.

The chairman stated that 06 officers have been interdicted already and recruitments have been made to cover their duties on acting basis. And there are issues among the Senior Engineers with regard to the salary scales of the authority and 06 officers have been appointed as acting Residential Project Managers.

Recommendations

i. Insertion of the recruitment procedures of internal posts of Mahaweli Authority in the SOR.

ii. The Secretary to the Ministry, The Director General of Mahaweli Authority and Department of Management Services to take actions to fill the vacancies within 3 months.

iii. Filling the resident Project Manager post within 1 month.

Report on the Current status and the progress

The letter No. MASL /F/DF / 55 of the Director General of Sri Lanka Mahaweli Authority dated 13.02.2019 carries a detailed report on these matters as follows;

i. Applications have been called and the measures have been taken to fill all the vacancies available in the higher management level.

ii. For the posts for which the qualified officers had not been applied, an internal arrangement was made to cover the duties.

iii. The recruitment of 45 posts out of 94 posts of middle management level has been completed and measures are being taken to fill the rest of the vacancies.

iv. Measures have been taken to fill 425 vacancies of operations and management level.
02. **The companies owned by Mahaweli Authority**

The present status of the following companies owned by the Mahaweli Authority was inquired by the Committee.

i. Mahaweli Consultancy Bureau (PVT) LTD
ii. Mahaweli Venture capital (PVT) LTD
iii. Natural Resource Management Services (PVT) LTD
iv. Mahaweli Livestock and Agribusiness (PVT) LTD

The chairman who clarified this matter submitted the following information to the committee.

i. Set for winding up and agreed to buy Mahaweli Consultancy Bureau (Pvt) Ltd

ii. Winding up has been completed.

iii. Orders have been issued to wind up and the staff has been attached to Mahaweli Authority

iv. Transferred to the Ministry of Agriculture with a cabinet approval as the subject is not coming under the purview of the institution.

**Recommendations**

Obtaining cabinet approval in liquidizing the companies as per the Companies Act if the companies cannot be maintained and to send such approvals to the committee.

**Report on the Current status and the progress**

The letter No. MASL /F/DF / 55 of the Director General of Sri Lanka Mahaweli Authority dated 13.02.2019 carries a detailed report on these matters as follows;

i. Mahaweli Consultancy Bureau (PVT) LTD – decisions have been taken to wind up this company. Further actions are being taken.

ii. Mahaweli Venture capital (PVT) LTD – winding up completed.

iii. Natural Resource Management Services (PVT) LTD - decisions have been taken to wind up this company. Further actions are being taken.

iv. Mahaweli Livestock and Agribusiness (PVT) LTD – the proposal to maintain the company as a public private partnership has been submitted to the National Agency on Private and Public Partnerships of the treasury.

03. **Implementing a loan scheme for colonists**

It was observed that The Authority had implemented a loan scheme in Rural Development Banks in 2002 investing 48 million, as a circular fund to provide
loans to Colonists and 84 million that was not utilized for that objective has been deposited in the bank and the committee inquired the reasons for that.

The Chairman stated that the treasury gave 90 million in 2007 and 50 Million in 2009 to Lankaputhra Bank directly and the objective was to provide small scale loan to Colonists and the Mahaweli Authority and the Lanka Puthra Bank entered into a Memorandum of Understanding. But this has not been included in the accounts of the Authority.

**Recommendations**

i. Adopting a more formal method in regard to financial department matters and implementation.

ii. Consulting treasury and Auditor General concerning present status and the manner as to how it could be accounted.

iii. Submitting a proposal to the committee within 3 months, on the manner as to how these kind of money can be spent.

**Report on the Current status and the progress**

The letter No. MASL /F/DF / 55 of the Director General of Sri Lanka Mahaveli Authority dated 13.02.2019 has informed the committee that the General Manager of Lanka Puthra Bank has informed that Rs. 90 Million that was issued for the SME bank by the treasury has been settled wholly and Rs 50 Million that has been issued to the Mahaveli Authority has been issued to the Mahaveli Colonists while Rs. 2.1 Million remains as Irregular Loans.

**04. Other institutions, using the Mahaweli Authority vehicles**

It was observed that one vehicle is with the Authority and 5 other vehicles with other institutions by 2017 and one vehicle that was issued to the presidential secretariat had met with an accident. 7 vehicles are being used by 7 Ministries and inquiries were made in that regard.

**Recommendations**

If these vehicles cannot be taken over to take measures to convey them to the respective institutions legally.

**Report on the Current status and the progress**
The letter No. MASL /F/DF / 55 of the Director General of Sri Lanka Mahaweli Authority dated 13.02.2019 has informed the committee that the vehicles that were issued to the external institutions have been taken over and since requests have been made by the Ministry Of Agriculture to transfer 2 vehicles that had been given to the secretary of the Ministry measures are being taken in that regard

### 05. Mini- Hydro Power station projects

Although the Authority had spent Rs.1,297,533 from 2011 to 2013 to identify 20 appropriate locations to establish Mini Hydro power stations in order to select investors, 12 projects out of them had not been implemented even by 2018. A lease amounting to a nominal value of Rs. 19,299,125 as per agreements had to be received in regard to lands that had been given to the investors to construct 3 Mini hydro power stations in 2013, it was observed that aforementioned dues also has not been recovered though the authority had sent letters of demand to recover Rs. 3,681,600 as per the unsecured loan value. The Director Legal informed that measures have been taken to get Attorney General’s advice so as to find remedies in regard to this matter.

**Recommendations**

i. Taking further actions as per legal advice

**Report on the Current status and the progress**

The letter No. MASL /F/DF / 55 of the Director General of Sri Lanka Mahaweli Authority dated 13.02.2019 informs that 12 out of 21 Mini- Hydro power stations that have sign agreements are functioning and current situation of the rest of 9 projects has been informed to the committee as follows:

<table>
<thead>
<tr>
<th>Number</th>
<th>Name of the project</th>
<th>Name of the investor</th>
<th>Capacity/MW</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ukuwela</td>
<td>Onyx Hydro Power Company (pvt.) Ltd.</td>
<td>2.2</td>
<td>In the process of obtaining Generation license from the Public Utilities Commission</td>
</tr>
<tr>
<td>2</td>
<td>Diggala</td>
<td>Escas Diggala Power (pvt.) Ltd.</td>
<td>4.4</td>
<td>Construction is being carried out</td>
</tr>
<tr>
<td></td>
<td>Location</td>
<td>Company Name</td>
<td>Score</td>
<td>Description</td>
</tr>
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<td>--------------------------------------------------</td>
<td>-------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>3</td>
<td>Kiula</td>
<td>Escas Kiula Power (pvt.) Ltd</td>
<td>2.8</td>
<td>A new environmental impact assessment has to be done due to the change of the plan</td>
</tr>
<tr>
<td>4</td>
<td>Nayakkubura</td>
<td>Ralic Hydro Power Generation (pvt)Ltd/N.G.P. Panditharathna</td>
<td>0.5</td>
<td>The Advice of the Attorney General has been sought to solve the issue as two investors have come up for both of this projects. It has been recommended that it is appropriate to assign this project with Ralic Hydro Power Generation (PVT) Ltd.</td>
</tr>
<tr>
<td>5</td>
<td>Chandrika- wewa</td>
<td>Mahaweli Consultancy Bureau(pvt)Ltd.</td>
<td>0.63</td>
<td>The environmental impact assessment has been completed</td>
</tr>
<tr>
<td>6</td>
<td>Kubalolluwa I</td>
<td>Noorwood Hydro Power (pvt)Ltd.</td>
<td>2.4</td>
<td>There are implementation issues in the same time as these two projects are located in close proximity to Sudu ganga. Plans have been made to do a survey to study the feasibility of</td>
</tr>
<tr>
<td>7</td>
<td>Kubalolluwa II</td>
<td>Kuballolluwa Hydro Power (pvt)Ltd.</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>
06. Underutilized Buildings

The Committee made inquiries of 243 buildings of Mahaweli ‘B’ zone to the value Rs.89, 977, 800 /= and 69 buildings of basic Work control section and maintenance section being underutilized by the end of 2015. and about 146 buildings that can be repaired and re used, 34 buildings usable and 262 buildings that can’t be used out of 442 underutilized buildings to the value of Rs.131,696,730 /= in a section of the authority and 6 zones by the date of 30. 12. 2016. it also inquired about taking expedite measures to repair such buildings before further destruction and having 592 underutilized buildings in 6 Zones by 2017.

The Chairman stated that the total number of buildings in the Mahaweli Authority is 3757 and out of them there are 292 removable buildings, 542 underutilized buildings. The Minister has instructed of the steps that have to be taken in that regard and accordingly the relevant sections have been instructed to use those buildings for the necessities of Hospitals, Police Stations and schools.

Recommendations

i. Providing following information to the committee

- What is the basic extent of lands under the purview of Mahaweli Authority?
- What is the number of buildings owned by the Mahaweli Authority?
- What is the number of buildings used by other institutions?
- What is the number of buildings transferred to other institutions?
- What is the number of buildings that have been proposed to transfer?
- What is the number of buildings that are available to develop?
- What is the number of buildings that can be transferred to other institutions?
Report on the Current status and the progress

The letter No. MASL /F/DF / 55 of the Director General of Sri Lanka Mahaweli Authority dated 13.02.2019 provides following information to the committee.

- The basic extent of lands under the purview of Mahaweli Authority – 1,301,605 Hectares
- The number of buildings owned by Mahaweli Authority - 3706
- The number of buildings used by other institutions - 1036
- The number of buildings assigned to other institutions - 61
- The number of buildings that have been proposed to assign - 509
- The number of buildings that are available to develop – 558.501 Hectares
- The number of buildings that can be assigned with other institutions - 509

07. Constructing bore holes in Weli Oya Zone

The committee inquired about the observations made in to the fact that only 22 bore holes which function with electricity were operative by 30th August 2019 even though Rs. 111,457,836/= has been spent by the end of 2017 to construct 25 bore holes in 2014, 40 bore holes in 2015 and 2016, for the tests on water capacities and water samples, building 42 water tank supports for that purpose (with water pumps), and to have three phase electricity. 22 bore holes out of proposed 40 have been completed and the work of 17 bore holes out of rest of the 18 have been completed and money has been paid to the Electricity board by the respective contractor to get the electricity supply. The chairman stated that all the bore holes will be completed by November 2018.

Recommendations

i. Taking speedy steps to complete this construction project.

Report on the Current status and the progress

i. The letter No. MASL /F/DF / 55 of the Director General of Sri Lanka Mahaweli Authority dated 13.02.2019 informs the committee that services will be provided to the rest of the bore holes once the electricity board provided the main electricity supply.

08. Disorderly mining activities of the Eppawala Phosphate deposit

The Committee inquired of the observation it has made to the effect that as per the agreement signed on the date of 9th April 1992 between the state and State Mining and Minerals Corporation LTD in regard to 17,942 perches land, it was agreed to pay a service fee of Rs. 300/= per cube of Phosphate. And
only Rs.1, 803,300/= has been charged for 6,011 cubes as per the records of the corporation as being unable to calculate the exact amount of mined phosphate since the mining was not carried out under the supervision of the corporation and large stones were seen remaining in the land as no restoration was done in the land.

The chairman informed that the payments are made as per the capacity mentioned in the mining license issued by the Geological Survey and the Mines Bureau after calculating the amount of phosphate mined and an additional sum is charged when it is observed that mining has been done exceeding the approved amount at the renewal of the license.

**Recommendations**

i. The committee emphasized that it cannot agree with the methodology to calculate the mined quantity of phosphate by the contractor and the accuracy of the payments made in that regard. To formulate a method to systemize the mining process.

**Report on the Current status and the progress**

i. The letter No. MASL /F/DF / 55 of the Director General of Sri Lanka Mahaweli Authority dated 13.02.2019 informs the committee that the defects of the previous agreement were rectified and a new agreement was formulated and signed on 13.02.2019.

**09. Soil excavation from Mahaweli zones**

It was observed in connection with providing license to excavate soil from Mahaweli zones, 671 acres of Mahaweli Authority located in Walawa, Mayurapura Division has been given only to 29 persons to supply 500,000 cubes of soil for the Southern Expressway project of Road Development Authority.

The Chairman stated that it has been observed that even though 122,570 cubes of soil have been supplied the payments have been made only for 3000 cubes. The excavations have been done beyond the approved limits as per the field inquiries and it was decided to do the payments only according to the license of the Geological Survey and the Mines Bureau. The respective suppliers were not in agreement with that and legal actions have been instituted while the service of the relevant officers has been suspended.

**Recommendations**
The committee expressed the displeasure over the whole process and to submit an extensive report to the committee in that regard.

**Report on the Current status and the progress**

i. The letter No. MASL /F/DF / 55 of the Director General of Sri Lanka Mahaweli Authority dated 13.02.2019 informs the committee that the license for soil mining for Southern Expressway has been given only to Global Technologies and Mr. T.D Gunerathna. Even though a complaint has been lodged against them in Sooriyawewa police station respective parties have not participated in the inquiry. The legal actions are being taken against them and necessary action has been taken to systematize and follow up the current process. *(Annexure 31)*

**Annexure 31**
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The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

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<td>458549/2016.05.12</td>
<td>560,000.00</td>
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<td>4</td>
<td>458548/2016.05.12</td>
<td>1,000,000.00</td>
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The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka
Sri Lanka State Pharmaceutical Manufacturing Corporation

(Ministry of Health, Nutrition and Indigenous Medicine)

Date of Inquiry : 11th October 2018

Matters discussed

01. Post of Deputy General Manager (Human Resources)

It was observed that a person had been recruited on contract basis when there were 20 vacancies in the approved cadre of the Executive Grade whereas qualifications of the Scheme of Recruitment with regard to a permanent position had been mentioned in the newspaper advertisement published on July 2017 to fill the vacancy in the post of Deputy General Manager (Human Resources) although “Contract” or “Permanent” basis had not been mentioned at any instance and the report of interview board, appointed in this connection, unsigned by its members had been handed over to the Auditor General as a true copy.

The Chairman stated newspaper advertisements were published to fill the vacancy in the post of Deputy General Manager (Human Resources) of the institution whereas the candidate who had fulfilled the qualifications had to be recruited on contract basis as he had exceeded the age limit and therefore, newspaper advertisements have been published again for the same purpose and the aforesaid appointment has been made till a qualified candidate is recruited.

The General Manager stated the original copy of the interview board’s report has been signed by its members and the said copy will be handed over to the committee.

The committee also informed to make necessary amendments with the consent of the Department of Management Services and to recruit a suitable candidate. If applications are not received due to the salary and qualifications required for the post.

Recommendations

i. To submit the original copy of the decision of the interview board to the committee as the recruitment process with regard to the post of Deputy General Manager (Human Resources) has created suspicion.
ii. To provide a comprehensive report after conducting an investigation regarding the process under a suitable officer of the Ministry.

**Reporting of present status and progress**

i. Not reported.

**02. Recruitments made on contract basis for the posts unavailable in the approved cadre**

Since it was observed that officers have been recruited on contract basis for five posts unavailable in the approved cadre and an issue has arisen about their qualifications whereas no proper Scheme of Recruitment had been followed, the committee inquired about the need to make recruitments for the said posts and about officers who were recruited as Formulation Development Executive. The General Manager stated plans are underway to establish a Central Research Center in year 2020 and two graduates were recruited as trainees for the post of Formulation Development Executive whereas recruitments for such technical posts in State Pharmaceutical Manufacturing Corporation are made on trainee basis even at executive level since there is no other institution that can provide such a training while the Chairman said it is admitted that making recruitments for the posts unavailable in the approved cadre is wrong although the graduates were recruited to obtain training for the said posts and subsequently they have been recruited for the post of Trainee Technical Assistant.

**Recommendations**

i. Whereas recruitments cannot be made for the positions not included in the approved cadre and paying salaries to such recruited persons is illegal, it was instructed to prepare a proper scheme of recruitment and obtain approval for it.

**Reporting of present status and progress**

i. Not reported.

**03. Post of Media Coordinator of the State Pharmaceutical Manufacturing Corporation**

Whereas the service of 24 persons who were not in the approved cadre had been suspended upon the recommendations of the Committee on Public Enterprises held
in year 2017 although one of them had been appointed as the ‘Media Coordinator’ while holding the posts of ‘Media Coordinator’ of the Minister of Health, Nutrition and Indigenous Medicine and the ‘Sales Promotion Officer’ of the State Pharmaceutical Corporation and according to the decision of the Board of Directors numbered BP 10917 dated October 10, 2017 it had been decided to pay a monthly salary of Rs.30,000.00 to this person. The committee inquired whether this officer is receiving salaries from three institutions and has been released from the State Pharmaceutical Corporation on secondment basis.

While expressing its utmost displeasure over the explanation made by the institution regarding the matter, the committee instructed that new recruitments should be carried out only after the relevant posts are approved.

Recommendations

i. Sending all the minuets and agendas of the Audit and Management Committees held in year 2017 to the Committee.

ii. Submitting a comprehensive report to the Committee and the Auditor General on the posts held by the relevant officer in the Ministry, State Pharmaceutical Manufacturing Corporation and the State Pharmaceutical Corporation as well as the salaries he receive and whether the officer has been released from the State Pharmaceutical Corporation on secondment basis.

iii. After receiving the report forwarding it to the National Audit Commission to investigate whether a malpractice or a flaw had taken place.

Reporting of present status and progress

i. Not reported.

04. Recruiting officers for the posts of Management Assistant and Pharmaceutical Technician

The Committee observed 09 officers had been recruited for the posts of Management Assistant and Pharmaceutical Technician without publishing newspaper advertisements in terms of the recruitment procedure of non-executive employees and inquired how the appointments were given.

The Deputy General Manager (Human Resources) said when examining the documents in this regard it is understood that these recruitments had been carried out by the Human Resource Division in year 2016 and persons who had been recruited on contract basis were subsequently absorbed to the staff after obtaining approval for the cadre of the institution.
Recommendations

i. The Department of Management Services was instructed to submit a report to the Committee after conducting a proper investigation in this regard.

Reporting of present status and progress

i. Not reported.

05. Fiber being contained in the CloxacillinCapsBP 500 m.g. stock of raw material

Whereas it was observed a stock of 210 kilograms of Cloxacillin BP 500 m.g. raw materials had been rejected without using them since it was revealed on 07.06.2016 that the stock of medicine contained fiber and the request made from the supplier through the local agent to recover the loss had been rejected since the first notification had been after 08 months, the Committee inquired on the matter.

Whereas the Deputy General Manager stated the Indian company that provided the said raw material is now non-operational and one of its former directors had agreed to provide a new stock of raw materials instead of the rejected stock, the Chairman assured the Committee a separate stock could be obtained from the said raw materials instead of the rejected stock of raw materials and said it has been informed through the local agent that the supplier has been black listed.

06. Obtaining drugs manufactured in India for State Pharmaceutical Manufacturing Corporation

It was observed that an agreement had been signed with an Indian company on 05.04.2016 to obtain drugs manufactured in India for State Pharmaceutical Manufacturing Corporation.

 Whereas 60% of the drugs could not be manufactured in the manufacturing plants in the two years of 2016/17 due to the renovation activities of the manufacturing plants carried out under the five year JICA project to expand the facilities of the State Pharmaceutical Manufacturing Corporation and its manufacturing plants, according to a decision taken by the Board of Directors, tenders were called in year 2016 through the internet and newspaper advertisements to procure the drugs that could not be manufactured within those two years since the State Pharmaceutical Corporation (SPC) should be notified at least a year in advance if the drugs are to be procured from the SPC and owing to the fact that the Medical Supplies Unit will have to pay an amount three times higher if the drugs are procured locally, the
Chairman added that this arrangement was made to obtain the amount of drugs required without any obstacle due to the shutting down of the manufacturing plant for renovation and these drugs have been approved by the Quality Controllers of the Corporation. He also stated that these drugs are provided to government hospitals only and the three institutions had been selected after they were approved by the Quality Controllers of the Corporation and the National Medicines Regulatory Authority.

**Recommendations**

i. It was instructed to hand over the inspection report that clarified the operations of these three institutions.

**Reporting of present status and progress**

i. Not reported.

**07. The Corporation not receiving 1000 units of raw materials from the Theophylline Anhydrous 32 drug, although payments have been made.**

Whereas orders had been placed on 24.05.2017 to purchase 100 units of raw materials from the Theophylline Anhydrous 32 drug and a payment had been made to the supplier on 25.05.2017 using telegraphic transfer system though the raw materials have not been received by the corporation, the committee pointed out without verifying the fake e-mail received by the Manager (Planning and Procurement) money had been deposited to an account that does not belong to the actual supplier according to an order issued to the bank with the signatures of the Deputy General Manager (Finance) and the Deputy General Manager (Quality Control) and inquired the following:

- The possibility of paying money using the telegraphic transfer system
- Making the payment before receiving the raw materials
- The suspicion whether the document to make the payment had included false signatures of the Deputy General Manager (Finance) and the Deputy General Manager (Quality Control).

Whereas the payment was due to be made using letters of credit, accepting that a serious malpractice had taken place, the Chairman stated the Criminal Investigation Department (CID), the Bureau of Investigation of Fraud and the Rathmalana Police have been asked to carry out an investigation in this regard and a proper investigation is being carried out at institutional level as well after a preliminary inquiry whereas the preliminary inquiry had identified two persons
responsible for the fraud and future measures will be taken after CID report is received.

**Recommendations**

i. It was instructed to submit a report to the committee within a week following an independent investigation at ministerial level by assigning a responsible officer from the pool of the Ministry of Public Administration in addition to the investigation carried out at institutional level regarding the entire process.

**Reporting of present status and progress**

i. Not reported.

**08. Importing raw material to manufacture Domperidone Malate BP drug when they had already been purchased**

The committee pointed out that in the years 2017 and 2018 the medical supplies unit had ordered a 50 million stock of the Domperidone Malate BP drug whereas 100 kilos of raw material had been purchased in October 2017 by the Corporation at a cost of Rs. 1,214,384/- to produce them although in the 08 months period ended from 04 June 2018 they had not been produced whereas it was also not included in the production plan and instead of producing, the drug had been imported from ‘Till Healthcare (Pvt) Ltd’, an Indian company and the committee inquired matters related to it.

The Chairman stated whereas the Corporation is bound to manufacture and supply Domperidone drug since the manufacturing plant had to be rebuilt after it was completely demolished the machines used for production had to be switched off for several days and the drugs that could not be manufactured were imported.

**09. The building purchased at Bulathsinhala area**

The committee pointed out whereas establishing a laboratory and a training school have been mentioned as the objectives, the building is a property that had been mortgaged to state bank and a certain amount of the payment (Rs. 65 million) to be paid by the mortgager to the bank had been paid by the institution and
emphasized a property mortgaged to bank could only be purchased by an external party only after the mortgage is settled by the owner and inquired about making a pre-payment to the bank.

Whereas it was revealed the entire construction work of the building is yet to be completed and a certificate of conformity had been obtained only for the first two floors, the Chairman stated the property was acquired to the institution after making the first payment to the bank and the cabinet approval has been obtained to amend the relevant clauses of the Act to carryout training activities before forwarding them to the Legal Draftsman and presented the amendments to the committee.

**Recommendations**

i. To submit a report to the Committee within two weeks through the Secretary to the Ministry on the cabinet approval obtained to amend the relevant sections of the Act and the proposed procedure to amend the Act.

**Reporting of present status and progress**

i. Not reported.

**10. Providing drugs to the Medical Supplies Unit by the State Pharmaceutical Manufacturing Corporation**

Inquiring about the quantity of drugs provided to the Medical Supplies Unit by the State Pharmaceutical Manufacturing Corporation out of its total production and quantities purchased.

Whereas the production capacity of the drugs manufacturing factory is 04 billion, the Chairman said a quantity of 3 to 3½ billion is provided to government hospitals while the rest is issued to private markets and added the profits of 12% and 20% earned from state and private sectors respectively are immensely important for the progress of the institution. The Chairman further stated that the institution caters to 95% of the government’s requirement while drugs worth Rs.64 billion are imported to the country and a joint venture has been formed to manufacture drugs within Sri Lanka whereas the production has been increased by more than one billion every year starting from year 2015 and it is expected more than 10 billion drugs could be manufactured by year 2020, enabling manufacture 30 drugs
essential for Sri Lanka and a proposal in this regard has been forwarded to the Ministry.

**Recommendations**

i. To submit a report in two weeks after including the following information.

- Annual drugs requirement of Sri Lanka;
- Out of it, the quantity imported by the private sector;
  - The quantity imported by the State Pharmaceutical Corporation;
  - The quantity produced by the State Pharmaceutical Manufacturing Corporation;
  - Of the total requirement, the quantity that can be manufactured in the country;
  - The capacity available;
  - Proposals to develop the current situation;

**Reporting of present status and progress**

i. Not reported.

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**Lanka Electricity Company (Private) Limited**

(Ministry of Power, Energy and Business Development)
Date investigated: 26th of October 2018

Matters Discussed

01. Agreement with the Electricity Board

The committee inquired whether the company has reached an agreement with the Electricity Board on purchasing electricity.

The General Manager of the institution said a new institution called ‘Transmission’ has been established with the implementation of the new Electricity Act (2009) and the institution is purchasing electricity from persons who own generator licenses while selling electricity to 05 institutions that distribute electricity to the country whereas an agreement should have been reached with the ‘Transmission’ institution, a problematic situation arose since the aforesaid institution is not an independent unit and added although the Public Utilities Commission has presented a regulation called Power Trading Award, an agreement can be reached when it reaches the final stage.

02. Unsuccessful projects

It was observed the investigation report on matters related to unsuccessful projects, misuse of vehicles and shortcomings in the bill issuing process inquired by the trade unions had not been submitted for auditing.

The Chairman said the copy had been sent to the institution by the Ministry and therefore, it should be obtained by the Ministry whereas the Secretary to the Ministry stated the copy can be produced if it required for audit purposes.

Recommendations

Providing information required for the audit to the Auditor General without delay.

Reporting of present status and progress

i. Not reported.

03. Nugegoda Underground Cable Project

The committee inquired whether the Board of Directors has granted its approval to implement this project.
The Chairman said the Board of Directors has granted its approval for this project and although the original document cannot be produced on this occasion, a copy of the decision could be submitted.

**Recommendations**

i. To send the minutes of the Board meetings with the approval of the Board to the Committee.

**Reporting of present status and progress**

The minutes with the Board approval regarding the aforesaid matter have been sent to the committee along with the letter of the General Manager of the Lanka Electricity Company (Private) Limited numbered FIN/COPE and dated 09.11.2018. *(Annexure 32)*

04. **Communication Module**

The committee observed that Rs. 76 million worth 15,000 communication modules had been purchased from ANTE LECO (Pvt) Ltd on 23.05.2018 whereas another 36,200 had been ordered subsequently whereas the invoice relevant for this transaction had been issued by the LECO and inquired about the matter.

An officer said the transaction had been carried out with the ANTE LECO (Pvt) Ltd and approval has been received for the entire stock of 36,200.

**Recommendations**

i. To send a report that includes a copy of the approval granted by the Board of Directors of the LECO and the method of purchasing.

**Reporting of present status and progress**

i. A comprehensive report that includes the approval of the Board has been submitted through the letter of the General Manager of the Lanka Electricity Company (Private) Limited dated 09.11.2009 (No: FIN/COPE) *(Annexure 33)*

05. **Peliyagoda Lamp Posts Project**

Whereas it was observed that this project had been abandoned and the raw material provided had been piled up in two containers at a location in Bandaragama area, the committee inquired the present situation in this regard.
The third report of the Committee on Public Enterprises in the eighth Parliament of the third session of the Democratic Socialist Republic of Sri Lanka

The Chairman who tabled a complete report prepared by the internal audit division stated a certain number of lamp posts that do not meet the required standards had been piled up at the institution premises.

**Recommendations**

i. To send the aforesaid report to the committee.

**Reporting of present status and progress**

i. The aforesaid report has been submitted along with the letter dated 09.11.2018 (No. FIN/COPE) of the General Manager of Lanka Electricity Company (Private) Limited.

**06. The issue between the trade unions and the institution’**

Whereas it was observed there is a certain issue between the trade unions and the institution and all the trade unions are working collectively with regard to this matter, the measure taken was inquired since it is an obstacle for the operations of the institution.

Whereas there is an issue, only with the trade unions of non-executive category, the chairman said they are highlighting issues that have a history of more than 05 years whereas a report has been prepared in this regard by the committee appointed by the Ministry and currently it is being discussed within the Board of Directors whereas the trade unions have levelled allegations against officials personally at a time the committee is carrying out an investigation and therefore, the Board has decided to appoint a committee to look into the alleged officers, whereas the Board of Directors has also prepared a report in reply.

**Recommendations**

i. To submit the aforesaid two reports to the committee within a week and sending a copy to the Auditor General.

ii. After receiving the two aforesaid reports, instructing the Auditor General to submit the observations to the committee for auditing purposes.

**Reporting of present status and progress**

i. Not reported.
Annexure 32
A project to convert the Nugegoda city centre and Boralesgamuwa town centre network to underground cables was initiated with the approval of the Board of Directors (Annexure 1). Initially the Nugegoda project was expected to be funded by the UDA and the Boralesgamuwa project was expected to be funded by the LECO as a pilot project in developing LECO cable installation protocols. Subsequently it was agreed that UDA will not fund the Nugegoda project and the LECO funds will be diverted to Nugegoda as Boralesgamuwa road widening works was scheduled not in a manner facilitating cable laying (Annexure 2).

The technical purpose of the project was to acquire practical experience in UG cabling in order to facilitate the development of a Network Construction Manual for UG works. In addition, this project was initiated as an urgent action to disburse the unused capital allocations of year 2014 in order to avoid Capital claw back by PUCSL. The expected budget of the project is Rs. 289.4 Mn.

With the initiation of the RDA to start the constructions in line with the progress of the ongoing road works the design was carried out urgently and the cables were borrowed from CEB on replacement basis. The cables were procured by the standard procedure to replenish the CEB stocks. Standard cost rates in line with CEB rates were worked out by an internal committee and a force contractor was commissioned for the works as per the LECO standard procedure of commissioning force contractors. The works started in August 2014. Approximately 400m of cable laying, inside the Nugegoda Supermarket car park is yet to be completed out of the total distance of 2400m. The procurement of substations and feeder pillars are to be forwarded to the approval of the Ministry procurement Committee for procurement after the review of the procurement by the committee appointed by the General Manager.

Rs. 116.9 Mn. for the HV and LV cables, works and other civil materials are disbursed to date. This was funded by the undischussed capital budget of year 2014. The balance works of Rs. 172.6 Mn. are expected to be funded by the LECO capital allocation for year 2015.

Head of Engineering

General Manager

Annexure 33
Ref: FIN/COPE

09th November 2018

The Secretary
Committee on Public Enterprises
Parliament of Sri Lanka
Sri Jayewardenepeura
Kotte.

Dear Sir,

Purchase of 15,000 modems on 2nd May 2018

1. Ante-Leco Metering Factory was set up in 2007 as a joint venture with Ante Metering Company, China and LECO. Meters were procured through a price formula from this factory by CEB and LECO on cabinet approval.

2. In 2017, this factory commenced SMART meter manufacturing. In line with this, price formula was amended through a board decision on 7th September 2017. Prior to the above, LECO had been purchasing electronic smart meters through public tenders.

3. After the price formula was approved, meters are being procured using the price formula, direct from Ante Leco in line with the meter supply agreement.

4. Price formula was developed only for the meter. The Committee appointed by the Ministry who formulate the price formula for the meter has also recommended to purchase modems from Ante-Leco Company at a negotiated price. This recommendation has been approved by LECO board of directors on 7th September 2017.

5. Last price that LECO has purchased this Modem PCB was on 13th June 2016 vide procurement file reference ERD/MD/Proc/2016/96/M010, through competitive bidding. The selected price was US$ 25.50 which is the lowest.

6. Ante-Leco Metering company agreed to supply the Modem at the same rate. Therefore it was purchased from Ante-Leco though direct procurement modality as per circular GM/CIR/1 dated 9th Mach 2016.

General Manager

A Company under the purview of Ministry of Power & Renewable Energy

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**On the Spot Investigation**
A spot inspection was carried out by the Committee on Public Enterprises at the Elkaduwa Plantation Company Limited on 16th of July 2018.
Observations and steps taken as per 120(4) of Standing Orders –
First Report of the Third Session of 8th Parliament
<table>
<thead>
<tr>
<th>No</th>
<th>Ministry</th>
<th>Institution</th>
<th>Observations Received</th>
<th>Tabled on</th>
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<tr>
<td>1</td>
<td>Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries &amp; Aquatic Resources Development</td>
<td>Paddy Marketing Board</td>
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<td>Hector Kobbekaduwa Agrarian Research &amp; Training Institute</td>
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<td>Milco (Pvt) Company</td>
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<td>Ministry/Corporation</td>
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<td>Sri Lankan Airlines</td>
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**Profit/ (Loss) before Tax of aforesaid institutions**

**Profit / Loss Statement.**
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<td>2018 Rs.</td>
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<td>Lanka Hospitals Corporation PLC</td>
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<td>2</td>
<td>University of Pali &amp; Buddhist</td>
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<td>3</td>
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<td>(105,028,625,000)</td>
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<td>People's Bank</td>
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<td>7</td>
<td>National Transport Commission</td>
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<td>Elkaduwa Plantation Ltd</td>
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<td>Ceylon Electricity Board</td>
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<td>10</td>
<td>National Water Supply &amp; Drainage Board</td>
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<td>Road Development Authority</td>
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<td>Post Graduate Institute Of Archeology</td>
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<td>23</td>
<td>Lanka Electricity Company (Pvt) Ltd</td>
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