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The Tenth Parliament of
the Democratic Socialist Republic of Sri Lanka
(First Session)

Fourth Report of the Committee on Public Enterprises

(Examinations Conducted on the Airport and Aviation Services
(Sri Lanka) (Private) Limited on 02.04.2025 and 09.05.2025)

Presented on 23 September, 2025
by Hon. (Dr.) Nishantha Samaraweera, M.P.,
Chair of the Committee on Public Enterprises

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First Session of the Tenth Parliament
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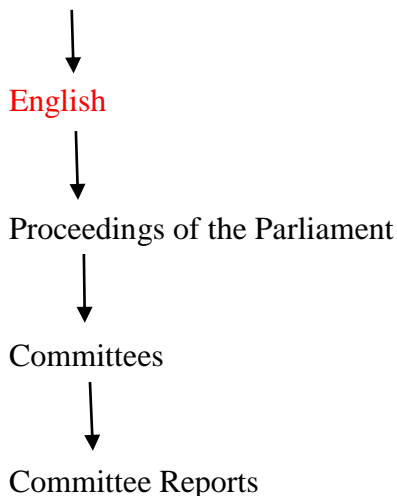
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Chair's Note

During the first session of the Tenth Parliament, on 02.04.2025 and 09.05.2025, the Committee on Public Enterprises of the Parliament of Sri Lanka conducted a complete examination into the Auditor General's Reports for the years 2022 and 2023 and the current performance of the Airports and Aviation Services (Sri Lanka) (Private) Limited coming under purview of the Ministry of Transport, Highways, Ports and Civil Aviation, and conducted a field inspection was also conducted at the Bandaranaike International Airport on 09.04.2025. I hereby present the fourth report of the Committee, which includes all these investigations.

The Airports and Aviation Services (Sri Lanka) (Private) Limited was established in 1983 under the Navigation (Special Provisions) Act, No. 2 of 1982.

The vision of the company is “To be the friendliest aviation partner in global connectivity towards a sustainable economy” and the mission is “To provide competitive, safe aviation services and superlative guest experience with best practices and latest technology to ensure stakeholder satisfaction.”

The Committee was able to identify serious problems arising from the suspension of two large-scale projects initiated with the aim of further expanding airport services. Accordingly, it was observed that Package A of Phase II, Step 2 of the Bandaranaike International Airport Development Project, which had commenced the construction of a new passenger terminal building to increase the airport's passenger handling capacity from 6 million to 15 million annually, had been suspended, while Package B, which was to increase the airport's capacity, had not been able to achieve the desired objectives. It was also observed that this had added a huge burden to the national economy.

Under Package B of this development project, it was planned to increase the number of aircraft parking spaces at the airport from 25 to 48 through the construction of a remote aircraft handling section and taxiway. However, the construction work of this section was delayed by about 25 months and an

excess amount of Rs. 766.8 million was paid to HAZAMA Construction Company for the construction work, exceeding the contracted value. However, due to operational problems in the project, the expected objectives could not be achieved.

The construction of the new passenger terminal building, Package A, was stopped on 9 December 2022, two years out of the three-year contract period. Although the actual progress was 5.44%, a huge amount of Rs. 37 billion, equivalent to 40% of the total cost, had been paid to the construction company. However, before the completion of the construction of the passenger terminal building, the construction of its roof, designed in the shape of an Araliya leaf, had been completed. It was revealed during this project inspection that the company had been storing it at Global Park since July 2022 at a cost of Rs. 3 million per month.

When looking at the above points, it is observed that the loss to the national economy due to the halting of such projects midway on their journey to earn targeted foreign exchange through the tourism industry is incalculable.

It is the responsibility of the Chief Accounting Officers and Accounting Officers not to frustrate the efforts made by the Committee to improve the financial discipline and performance of public enterprises.

I greatly appreciate the active participation and detailed deliberations of all committee members throughout this examination process.

I also appreciate the assistance provided by the parliamentary staff headed by the Hon. Speaker, and the consultant of the Committee on Public Enterprises, as well as the cooperation extended by the Treasury officials and the National Audit Office headed by the Auditor General, in successfully carrying out the activities of the Committee on Public Enterprises.

Dr. Nishantha Samaraweera
Chair
Committee on Public Enterprises

**Fourth Report of the Committee on Public Enterprises
First Session of the Tenth Parliament**

The Committee on Public Enterprises is pleased to present the Fourth Report of the First Session of the Tenth Parliament.

The Committee on Public Enterprises, with the assistance of the Auditor General, shall examine the accounts and current performance of all public corporations, trading and other businesses assigned to the Government under any written law, and companies registered or deemed to be registered under the Companies Act, No. 7 of 2007, and the companies in which fifty percent or more of the shares are held by the Government or a public corporation or a local government institution.

Currently, there are 462 public enterprises regulated under the Department of Public Enterprises and the Department of National Budget, which are under the supervision of the Committee on Public Enterprises. (Source: Department of Public Enterprises).

The Committee on Public Enterprises convened and investigated the following institutions during the period from 2025.02.18 to 2025.08.20, when it commenced its investigation activities in the first session of the Tenth Parliament.

Serial Number	Institution	Date of Committee Meeting
1.	National Youth Services Council	18.02.2025
2.	National Youth Services Council	20.02.2025
3.	Sri Lanka Bureau of Foreign Employment	27.02.2025

4.	National Gem and Jewellery Authority	05.03.2025
5.	National Medicine Regulatory Authority of Sri Lanka	12.03.2025
6.	National Gem and Jewellery Authority	27.03.2025
7.	Airport and Aviation Services (Sri Lanka) (Private) Company	02.04.2025
8.	Land Reform Commission	08.05.2025
9.	Airport and Aviation Services (Sri Lanka) (Private) Company	09.05.2025
10.	Sri Jayewardenepura General Hospital Board	15.05.2025
11.	Sri Lanka Bureau of Foreign Employment	23.05.2025
12.	Sabaragamuwa University of Sri Lanka	04.06.2025
13.	University of Sri Jayewardenepura	20.06.2025
14.	Mahapola Trust Fund	09.07.2025
15.	Land Reform Commission	17.07.2025
16.	State Timber Corporation	23.07.2025
17.	Civil Aviation Authority	20.08.2025

Among them, the Auditor General's Reports for the years 2022 and 2023 of the Airports and Aviation Services (Sri Lanka) (Private) Company Limited coming under the purview of the Ministry of Transport, Highways, Ports and Civil Aviation, which was inspected on 02.04.2025 and 09.05.2025 and the observations and recommendations made by the Committee having examined the current performance of the said company, as well as the details of the field inspection conducted by the Committee at the Bandaranaike International Airport on 09.04.2025 are also included in this report.

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Audit Opinion on Financial Statements

The Auditor General's opinion on the financial statements of the Airports and Aviation Services (Sri Lanka) (Private) Company Limited for the years 2022, 2023 and 2024 is set out below.

Institution	Audit Opinion		
	2022	2023	2024
Airports and Aviation Services (Sri Lanka) (Private) Limited	Qualified Audit Opinion	Qualified Audit Opinion	Audit opinion has not yet been issued

Types of Audit Opinions

01. Unqualified Opinion

That the financial statements present the financial position of the entity in a justifiable way.

02 Qualified Opinion

That, except for the effects of the matters mentioned in the report, the financial position, financial performance and cash flows of the institution reflect a true and fair situation in accordance with Sri Lanka Accounting Standards.

03 Disclaimer of Opinion

That an opinion cannot be expressed regarding the accounts due to the inability to identify sufficient or appropriate audit evidence.

04 Adverse Opinion

That the financial position, financial performance and cash flows of the institution do not reflect a true and fair view in accordance with Sri Lanka Accounting Standards.

Airport and Aviation Services (Sri Lanka) (Private) Limited
(Ministry of Transport, Highways, Ports and Civil Aviation)

Dates of Investigation - 2025.04.02 and 2025.05.09

Matters Discussed

**01. Organizational Structure, Staff, Cadre and Recruitment
Procedure of the Institution**

1.1 Organizational Structure

According to the observations made by the Committee on the organizational structure of the Institution, the Institution consists of a Board of Directors headed by a Chairman and a Vice Chairman with executive powers, and it was observed that there is no Chief Executive Officer or Managing Director. The Institution has been divided into two main divisions under the Chairman and the Vice Chairman, and 24 divisions operate under the said two main divisions. Each of these divisions has a head of the division, and all decision-making and implementation of the institution take place under the supervision of the Chairman.

1.2 Staff, Cadre and Recruitment procedure

The Committee observed the following matters regarding the staff of the institution.

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<u>Employee Category</u>	<u>Number of Employees as at 31st December</u>		
	<u>2024</u>	<u>2023</u>	<u>2022</u>
Executive	445	442	388
Supervisor/Technical Officer/Salespersons	311	292	238
Clerical and Parallel Grades	664	617	656
Skilled and Semi- Skilled Employees	2187	2113	2051
Junior Employees and Unskilled Employees	424	474	515
Casual Employees and Trainees	0	2	6
	-----	-----	-----
Actual Staff	4031	3940	3854
	-----	-----	-----
Approved Cadre	5441	5434	5367

Year	2022	2023	2024
Approved Cadre	5367	5434	5441
Actual Staff	3854	3940	4031
Staff Vacancies	1513	1494	1410

It was revealed in the Committee that the staff of the institution has been approved by the Board of Directors, and although there was no approval from the Department of Management Services for the same, a salary structure approved by the Department of Public Enterprises has been implemented for this staff from 01 January 2024. All the formats including the salary structure, the Recruitment Procedure (SOR), the required number of employees and the salary structures included in the format of the Department of Management Services and approved by the Board of Directors, will be presented to the Board of Directors' meeting to be held on 28 May 2025 and forwarded to the Secretary to the Ministry with the approval of the Board of Directors and submitted to the Department of Management Services. The Head of Human Resources pointed out that, it is necessary to obtain the approval of the Department of Management Services although the current staffing is under the approval of the Board of Directors.

Referring to the task of approving the Recruitment Procedure (SOR) required by the institution, the Auditor General pointed out that it would take a significant amount of time to approve the recruitment procedures due to the specific staffing requirements of the institution.

Although the Company had been recommended to obtain the approval of the Department of Management Services for the Recruitment Procedure (SOR), the number of employees and the salary structures in previous meetings of the Committee on Public Enterprises, the Committee pointed out that the recommendations had not been implemented so far and emphasized that the approval of the Department of Management Services for the Recruitment Procedure (SOR) should be obtained as soon as possible.

Explaining the reasons for the delay in implementing the committee's recommendations, the company's Head of Human Resources said that all

the SORs were reviewed and submitted to the Board of Directors for approval in July 2024, and as the Board of Directors recommended that the proposals be reviewed again, they were referred to the Human Resources and Remuneration Committee. Since the company has specific business needs, the committee decided to consult all institutions, namely the Department of Management Services, the Department of Public Enterprises, the Line Ministry and the Civil Aviation Authority, and a special committee was appointed in July 2024 in this regard. However, there was a delay in holding the special committee meetings due to the Presidential and General Elections which were held that year. However, the Human Resources and Remuneration Committee has continued with the reviewing and it is the same with the new Board of Directors as well.

The Director of the Department of Management Services explained that the salary structure of the institution is different from other state enterprises and that the number of employees, positions and salary structure should be reviewed in accordance with the requirements of the government and market conditions before approving the recruitment procedures.

The Committee pointed out that it is appropriate to create the post of Chief Executive Officer, since there is a need for a separation between the decision-making and implementation of the decisions of the institution.

The Director of the Department of Management Services stated that the Chairman of the company is recognized as the person holding the executive powers in accordance with the Civil Aviation Act.

The Committee inquired about the recruitment of skilled and semi-skilled employees.

The Head of Finance stated that all employee recruitments have been carried out in accordance with specific recruitment procedures.

Recommendations of the Committee

- I. To prepare a Recruitment Procedure (SOR) of the Company in accordance with Section 3.2 (i) of the State Enterprises Circular 01/2021 (Operations Manual for State-Owned Enterprises) and to obtain the approval of the Department of Management Services for the same and submit it to the Committee within 3 months.**
- II. To submit the salary structure approved by the Department of Management Services for the above I to the Board of Directors of the Company in July 2024 and to submit it to the Department of Management Services through the Ministry, along with the views of the Board of Directors on the staff in accordance with the relevant salary structure and the Recruitment Procedures (SOR) prepared accordingly.**
- III. To consider whether there is a need to create a Chief Executive Officer position in addition to the Chairman of the Company, and whether there are any sections that can be consolidated accordingly, considering the duties performed by various sections of the Company, and if so, to consider the possibility of simplifying the organizational structure.**
- IV. In acting on the above recommendation, proposals relating to the amendment of the Civil Aviation Act No. 14 of 2010 shall be made on the basis of the proposals and approval of the Chief Accounting Officer.**
- V. To take steps to prepare the organizational structure, salary structure and cadre decided and proposed by the institution in consultation with the line ministry, in the preparation of the said SOR in a manner consistent with good governance.**

VI. To take necessary steps for prompt action in this regard upon receipt of the SOR and to approve the recruitment scheme in accordance with the relevant salary structures as soon as possible.

Officers/ Institutions Responsible for Implementing recommendations

- Secretary - Ministry of Transport, Highways, Ports and Civil Aviation (Recommendation No. -I,II,III,IV)
- Chairman - Airport and Aviation Services (Sri Lanka) (Private) Limited (Recommendation No. -I,II,III,IV)
- Head of Human Resources - Same - (Recommendation No. -I,II)
- Director - Department of Management Services (Recommendation No. -V,VI)

Progress in implementation the recommendations of the Committee

- An initial draft of the new recruitment procedure (SOR) has been provided to the Committee on 27 April 2025.
- A letter dated 01 July 2025 has been submitted to the Committee by the Accounting Officer requesting an additional 03 months period to complete the new recruitment procedure of the institution and submit it to the Committee.
- A letter sent by the Accounting Officer of the institution to the Chief Accounting Officer, in relation to Recommendation III above, considering the advantages and disadvantages of appointing a Chief

Executive Officer, has been submitted to the Committee on 12.06.2025.

- Further, a copy of the proposal, sent to the Secretary to the Line Ministry seeking permission to restructure the company into six functional divisions—each to be managed by a Deputy General Manager in accordance with their respective duties as outlined in the recommendation—and to recruit a General Manager on a two-year contract to expedite the integration of the divisions, was submitted to the Committee on 1 September 2025.

02. Annual Action Plan and Corporate Plan

The Committee focused attention on the preparation of the Corporate Plan 2025-2027, the Annual Action Plan and Human Resource Plan for 2025, the new Recruitment Procedure (SOR) of the Institute, in accordance with the recommended structural changes and the current government policies. Head of Strategic Management pointed out that , as these plans have been prepared before the appointment of the current Board of Directors, the Ministry has instructed to prepare the Corporate Plan for a period of 5 years from 2025-2029 and that it will be a challenging task.

The Committee emphasized that proper planning is essential when considering the overall direction of the Institute.

Recommendation of the Committee

Revising the corporate plan of the Company for the period from 2025 to 2029 within 03 months to be in line with the policies of the present government and with the new scheme of recruitment (SOR) and

making the necessary adjustments to the annual action plan and the human resource plan accordingly.

Officers / Institutions Responsible for implementing recommendation

- Chairman - Airport and Aviation Services (Sri Lanka) (Pvt.) Limited
- Head of Strategic Management - Airport and Aviation Services (Sri Lanka) (Pvt.) Limited

Progress in implementing the recommendation of the Committee

The corporate plan of the Company for the period from 2025 to 2029, which has been approved by the Board of Directors of the Company, has been submitted to the Committee through the letter dated 01 July 2025.

03. Bandaranaike International Airport Development Project (BIADP) Phase II - Stage 2, Project B

As per the Cabinet Decision No. CP/07/2283/312/030 dated 19 December 2007, a Japanese partner company named JAC/NK had been selected for obtaining designing and consultancy services for the project to increase the current annual passenger handling capacity of the Bandaranaike International Airport from 6 million to 12 million. The selected company had taken 04 years from 2009 to 2012 to prepare the designs and the Airport and Aviation Services Ltd. had paid Rs. 344.5 million for it.

The Committee observed that JAC/NK Company had been selected for Stage 2 of Phase II of the Bandaranaike International Airport Development Project (BIADP) on the grounds that it would not be possible to complete the construction work of Stage 2 of Phase II of the Project expeditiously

utilizing the funds to be obtained from the Japan International Cooperation Agency (JICA) in 2009 in case a design consultant was selected under competitive bids, which is a decision made in accordance with Cabinet Memorandum No. CP /07/2283/312/030 of the Minister of Ports and Aviation dated 19 December 2007.

The Committee observed that the JAC/NK Company has been selected for the second phase of the second phase of the Bandaranaike International Airport Development Project (BIADP) on the grounds that it would not be possible to commence the construction of Phase II, Step 2, in a timely manner, utilizing the funds to be received from the Japan International Cooperation Agency (JICA) in 2009.

Because of the decision taken in 2013 to redesign the project in order to increase the passenger handling capacity from 6 million to 15 million, the initial plan, which had been prepared at a cost of Rs. 344.5 million, had not been implemented and the expenditure incurred on preparing that plan had become wasteful.

The Committee further observed that agreements had been entered into with the Japan International Cooperation Agency (JICA) in the years 2012 and 2016 to obtain financial facilities of JPY 74,397 million for this Project. It was also observed that, through a Cabinet Memorandum, a Request for Proposals (RFP) had been issued for the selection of a consultancy firm for the Project and only JAC/NK Company had submitted its proposal in response to that request, and that the said JAC/NK Company had been selected to redesign this Project taking into account the fact that a Japanese company should be selected for projects financed by Japan, which was a condition of the loan agreement that had been entered into with the Japan International Cooperation Agency (JICA), and accordingly, the agreements had been signed on 03 March 2014.

As per the agreement, the duration of the consultancy service is 47 months and the total consultancy service fee for the service consists of USD. 1.3 million, JPY 1,367.5 million and Rs. 519.6 million.

However, due to the amendment of the agreements in 2016 and 2023 by revising the plans according to the needs of Airports and Aviation Services (Sri Lanka) (Pvt.) Limited for making revisions such as changing the layout of the passenger terminal building, making architectural changes, changing the design of the roof, extending the construction supervision service period for the construction work of Package B and making changes to the implementation plan of Package A, a fee of USD 178,589, JPY 1,612.4 million and Rs. 808.6 million had to be paid in addition to the initial consultancy service fee, and the agreement period had been extended from 47 months to 131 months, i.e. by 84 months (7 years). Accordingly, during the period from 2014 to 31 December 2024, a total of Rs. 3,884.8 million, which is equivalent to JPY 2,425.2 million, had been paid to the consulting firm as planning and consultancy service fees.

Under the Package B of this development project, the construction of a remote apron and the taxiway is being carried out and it was expected that this would increase the number of aircraft parking spaces, currently available at the airport from 25 to 48.

The contract for this construction was signed on 28th February 2017 with Hazama Ando Corporation, which submitted the lowest bid, and its value was Rs. 6,117.8 million. Although the construction work of this package, which had a contract period of 30 months, was scheduled to be completed on 24th October 2019, it was completed on 26th January 2022. Accordingly, there was a delay of about 25 months. Also, an amount of Rs. 6,884.6 million was paid to Hazama Construction Company for the construction work. Accordingly, an amount of Rs. 766.8 million was paid more than the contracted value.

Aircraft stands 27 to 49 have been constructed under the Project B, which was implemented on 26th January 2022, but stands 27 to 35 have been temporarily closed to make way for the construction of the passenger terminal building. Stands 36, 37, 40, 41 and 42 are operated as multi-aircraft stands.

As shown above, it was revealed that there were operational issues with 5 multiple parking bays, though they were built at a high cost, and they are utilized to service two narrow-body aircraft , simultaneously.

The Committee also inquired about the management and the monitoring mechanisms of the project. In response, the Secretary to the Ministry noted that a Project Management Unit had been established under the Ministry Secretary's oversight, following the concerns raised by the international aid agencies. However, the Committee discussed the functions and the responsibilities of the Project Management Unit and noted that its composition and the staff selection, are overseen by the Ministry of Finance and the Department of Management Services.

The Committee was informed that the main reason for the delay of the Project B by 25 months, was the quality issues and a failed supervision process. According to the Project Director, the consultation firm had failed to control the contractor's poor performance, which required close supervision by the firm's officials. As a result of these issues, some sections had to be rebuilt, and the planned completion date of the project was exceeded.

The Committee observed that what happened here was not the consultation company supervising the contractor of the project, but the institution supervising the consultation company.

Although, upon the approval, the project was inspected with the participation of 14 officials of the institution, the fact that the operational issues that arose later were not addressed at that time, was exposed as a controversial issue.

The Committee emphasized that these failures have resulted in a waste of public funds.

This problem mainly arose due to the fact that the distance between the nose wheel of the aircraft and the fuel hydrant pit was not sufficient when the multi-aircraft stands are utilized to service 2 narrow-body aircraft such as the A320 simultaneously, resulting in the possibility of the nose wheel of the aircraft passing over the fuel hydrant pits at the multi-aircraft stands.

The consultation firm's Chief Project Officer, Keiya Nishio, explained that the locations of the fuel supply stations were correctly indicated in the bid documents that were issued about 10 years ago and their initial plans were prepared based on them. However, he pointed out that the Ceylon Petroleum Corporation, subsequently designed and constructed the fuel supply stations according to their requirements, and this led to the operational issues with the multiple aircraft parking areas.

As explained by the Accounting Officer, following the field inspection conducted by the Committee and the extensive discussions with the officers of the consultation firm, Sri Lankan Airlines ground handling staff and the airport officials, the consultation firm has proposed a solution by changing the aircraft runway markings without changing the fuel supply points. According to this solution, it is proposed to reduce the space required for the aircraft handling at multi-aircraft stands from 70 meters to 40 meters by marking the place where the front wheel of the aircraft stops relatively far back.

The Committee emphasized that this issue should be resolved as soon as possible by implementing one of the following three options, while ensuring the safety of the aircraft and the passengers:

1. Parking two narrow-body aircrafts at multi-aircraft stands in a manner that does not allow the aircraft's front wheels to pass over the fuel supply points , in accordance with the international standards.
2. If that is not possible, parking one wide-body aircraft at the multi-aircraft stands.
3. Parking one narrow-body aircraft at the multi-aircraft stands.

The Chairman of the Civil Aviation Authority explained that the consultation company's solution, is being reviewed by the inspectors who are licensed from the International Civil Aviation Organization (ICAO), and it is hoped that the correct decision will be made based on the results of that review.

The committee emphasized that any action that will be taken to address this issue, must be in accordance with the international standards, ensuring the safety of the aircraft and the passengers.

Recommendations of the Committee

- I. Identifying the areas where the errors have occurred ,holding a discussion and conducting a specific investigation with all the stakeholders, including the ground handling staff and the management unit that coordinates the institution , before commencing further work.**

- II. Conducting a full analysis of the JAC/NK company's consultancy process, related to the project and decide whether to continue to engage the company's services.**
- III. Obtaining the views of the Sri Lankan Airlines' ground handling staff and the other stakeholders regarding the solution provided by the consultancy company to resolve operational issues at the multi-aircraft stands, obtaining the approval of the Civil Aviation Authority as soon as possible that it complies with ICAO standards, and implementing the solution within a month.**
- IV. Conducting a simulation before the implementing the solution.**
- V. Conducting an independent investigation into the Package B of the Bandaranaike International Airport Development Project (BIADP) Phase II Step 2 ,within 3 months and to submit a report to the Committee with the necessary observations.**
- VI. Conducting an investigation into the negligence of the duty by the responsible officers of the company, including JAC/NK Consulting Company, the Project Management Unit and the Project Division of the Airports and Aviation Services (Sri Lanka) (Private) Limited, resulting the operational issues in the Package B of the Bandaranaike International Airport Development Project (BIADP) Phase II Step 2 Project.**
- VII. Submitting documents to the Committee,confirming that the supervision of the project, related to the Package B, was**

properly carried out by the Project Division of the company, during the period of the implementation.

- VIII. The immediate submission of the letter which was sent by the JAC/NK company to the Director of the Project Management Unit, which stated that it will accept the responsibility for correcting the road markings and the layout of the E apron related to the 14 unusable aircraft parking spaces at the remote aircraft handling section and the taxiway.**

Officers/Institutions Responsible for implementing recommendations

- Secretary - Ministry of Transport, Highways, Ports and Civil Aviation (Recommendation No. V, VI)
- Chairman - Airports and Aviation Services (Sri Lanka) (Private) Limited (Recommendation No. I,II,III,IV)
- Head of Project Division - Do - (Recommendation No. VII, VIII)

Progress in implementing the recommendations of the Committee

- The Accounting Officer informed the Committee, at its meeting held on 09.05.2025, that a discussion had been held and decisions had been made in relation to the Recommendation I.
- The Chief Accounting Officer disclosed at the Committee meeting held on 09.05.2025 that, pursuant to Recommendation V above, an Investigation Board had been duly appointed to undertake a comprehensive investigation into Project B. He also stated that the Board concerned shall comprise one officer from the Civil Aviation Authority and two Additional Secretaries from the Line Ministry.

The letter pertaining to Recommendation VIII above was submitted to the Committee at its meeting held on 02.04.2025.

**04. Bandaranaike International Airport Development Project
(BIADP) Phase II Step 2- Package A - Passenger Terminal Building
and Related Work**

The construction contract for Package A – Passenger Terminal Building and Associated Work had been awarded to Taisei Corporation on 04 March 2020 for a total contract value of Rs. 105,569.7 million, equivalent to JPY 41,553.9 million and Rs. 35,135.8 million. The contract work was scheduled to begin on 15 December 2020, and be completed on 13 December 2023.

The Japan International Cooperation Agency (JICA) had suspended the disbursement of loan installments for the project following the issuance of the circular titled '*Interim Policy on Financing Sri Lanka's External Public Debt*' by the Ministry of Finance on 12 April 2022. As a result, the contractor had ceased construction activities on 09 December 2022, by which time two years had elapsed since the commencement of the contract period.

Although the physical progress was expected to reach 30% by that date, the actual progress achieved was only 5.44%. As at 31 December 2024, a total of Rs. 37,311.3 million had been disbursed to the contractor under the construction contract.

Following the suspension of construction work on 09 December 2022, a contract titled “*Identified Protective works in MTB, Pier 2 & Pier 3 at BIADP phase II stage II*” had been awarded to Ms/ Access Engineering plc on 22 June 2023 for a contract value of Rs. 477.4 million and the work had been completed on 31 December 2024.

The total cost incurred as of that date amounted to Rs. 374.1 million. In addition, a contract titled *Identified scope of works of ground beams etc. at MTB pier 2 & pier 3 at BIADP phase II stage 2* had been awarded to the same company on 8 April 2024 for a contract value of Rs. 3,255.5 million and its physical progress stood at 73% as of 31 December 2024. The cost incurred as of the date concerned amounted to Rs. 954.5 million. Accordingly, it was observed that an additional cost of Rs. 1,328.7 million had to be incurred for the above contracts due to the suspension of the project.

4.1. A substantial amount, equivalent to 40% of the total project cost, had been paid to the contractor despite the physical progress of the project reaching only 5.44%.

The Committee questioned why it was required to pay Rs. 37 billion (40% of the total project cost) by 31 December 2024 to Taisei Corporation, despite having completed only 5.44% of the project.

The Director of the Project Management Unit informed the Committee that a total of 20.1 billion yen had been paid to the contractor, comprising 9.1 billion yen for the work completed and 10.9 billion yen as compensation for the loss incurred due to the cancellation of the contract.

The Chief Quantity Surveyor of the consulting company explained that, in accordance with the terms of the contract, Taisei Corporation was entitled to payment for the work completed up to that point as well as

compensation for losses incurred due to the contract cancellation. He stated that Taisei Corporation had requested compensation amounting to USD 130 million. However, he further added that after a review period of seven to eight months, the special committee appointed to assess the claim determined that the most reasonable compensation amount was 10.9 billion yen, which was subsequently proposed for payment.

In addition, the Committee was informed that this payment encompassed amounts based on the progress of construction, the value of construction materials and equipment handed over by Taisei Corporation to Airports and Aviation Services (Sri Lanka) (Private) Limited, as well as the cost of equipment that was in transit to Sri Lanka from abroad at the time of the contract cancellation.

The Committee observed that although the physical progress was 5.44% of the project, the amount paid for it was only about half of the total payment.

The Auditor General emphasized that if the work completed at the time of cancellation of the contract is estimated at approximately 6%, the total payment for the completed construction should be about Rs. 6 billion. However, he pointed out that 9.1 billion yen, or a payment amounting to Rs.18 billion (equivalent to about half of the total payment of Rs. 37 billion) has been paid for the corresponding work.

Accordingly, it is evident that an amount exceeding Rs. 12 billion, which is more than Rs. 6 billion that should have been paid based on actual physical progress, had been paid to the contractor for construction materials and equipment handed over to Airports and Aviation Services (Sri Lanka) (Private) Limited. However, the Auditor General pointed out that the total value of the construction materials and equipment returned

by Taisei Corporation to Airports and Aviation Services Company was only Rs. 3.9 billion.

Furthermore, due to the failure of the original contractor to carry out the necessary construction work required to ensure safety, Airports and Aviation Services (Sri Lanka) (Private) Limited was compelled to engage another company to perform the work, resulting in an additional cost of Rs. 1,328.7 billion.

The Committee stated that if the airport and airline had been keen to have the construction work carried out by the Taisei Company, there would have been scope to save on the above costs. The Committee also strongly emphasized that the consulting company had acted negligently without any responsibility.

4.2 Errors in the architectural designs of the passenger terminal building

According to a letter sent to the consulting firm by the Director of the Project Management Unit in February 2025, attention of the Committee was drawn to rectify 640 architectural errors in 18 key locations of the building.

Officials from the consulting firm explained that, following the cancellation of the contract and the subsequent payments, the digital 3D Building Information Model (BIM) prepared by Taisei Corporation had been handed over to them. The Officials further said that it was through this model that they were able to identify the errors in the architectural plans.

The Committee observed that the consulting firm had taken steps to issue addendums to resolve these issues prior to the call for new bids on 27 May 2025.

The committee emphasized that it is important to ensure that there is no extension of time or increase in cost due to errors in the architectural plans during the implementation of the upcoming contract.

4.3 Roof of the passenger terminal building

The Committee observed that the shape of the roof of the passenger terminal building changed according to the needs of the political authority in power at the relevant time.

In 2012, the roof design was conceptualized to resemble lotus petals. However, in 2015, it was revised to reflect the shape of a temple (frangipani) leaf.

Although the physical progress of the project stood at only 5.44% at the time of its cancellation, the contractor had nevertheless proceeded to order the roof of the passenger terminal building, which was subsequently taken over by the company in July 2022, following the suspension of the project. The said roof is presently stored in a warehouse at Global Park at a cost of Rs. 3 million per month. When the committee inquired about the rationale for ordering and taking possession of the roof despite the minimal progress of the project, the Deputy Director of the Project Management Unit stated that, although the roof of the passenger terminal building was scheduled to be imported and taken over in February 2022 according to the program of the consulting company followed by Taisei Company, in fact, the roof was handed over to the project site later than the scheduled time.

According to the officials of the consulting company, where materials ordered in advance are not received in accordance with the terms of the contract, storage charges are also payable to the contractor. The Committee observed that the decision to order the roof without a proper assessment of the actual progress of the project evidences defects in supervisory oversight.

Recommendations of the Committee

- I. To submit to the Committee the date of ordering the roof, the documents related to the order and the physical progress of the construction of the passenger terminal building at that time.**
- II. To provide the list of names of the Counterpart Team nominated by the company in relation to the project and other information to the Auditor General and the Committee.**

Officers/Institutions Responsible for implementing recommendations

- Chairman - Airports and Aviation Services (Sri Lanka) (Private) Company Limited

Progress in implementing the recommendations of the Committee

- The list of names of the Counterpart Team and other information related to Recommendation II above was provided to the Committee on 11 August 2025.

4.4 Auctioning of Remaining Construction Materials and Equipment of the Project and Failure to Relocate the Incinerator to a Cost-Effective Warehouse

Following the cessation of construction work on 09 December 2022, the materials and equipment procured by the contractor for the project were to

be taken over by Airport and Aviation Services (Sri Lanka) (Private) Limited. In this regard, the Chairman of Airport and Aviation Services (Sri Lanka) (Private) Limited appointed nine committees on 20 January 2023. In order to mitigate potential losses arising from the expiry of roofing materials and other supplies, Committee No. 03, appointed for this purpose, recommended that the remaining quantities of such materials be disposed of through auction. However, owing to the failure of management to implement the recommendations of the said committee, a private warehouse was leased with a security deposit of Rs. 5.2 million for the storage of the aforementioned materials, and Rs. 45.6 million was expended as warehouse rent for the period from 1 December 2023 to 31 December 2024. Overdue assets worth Rs. 79.6 million and Japanese Yen 3.1 million remained in this rented warehouse.

As per the Committee Evaluation and Recommendation No. 07 issued on 17th February 2023, the Company, under the supervision of the subcontractor, had stored the incinerator at the same location as the contractor, and had paid a total of Rs. 16.7 million as storage rent and other charges for the period from 9th December 2022 to 8th January 2025. However, the Committee had proposed to relocate the machine from that storage to the above storage, which had been reported to save Rs. 392,904 per month. Due to non-implementation of those recommendations, the Company had incurred an additional storage cost of Rs. 3.9 million from March 2023 to December 2024.

As stated by the Deputy Head of the Project Division, the recommendations of the committee were reviewed again in September 2023 and it was decided not to implement some of the recommendations that were impractical. The materials and equipment purchased for the project become the property of the company after all payments are made, and since those payments had not been made by 2023, the consulting

company and Taisei Company had objected to moving the burner to the private warehouse in Global Park. Also, since the 10-year warranty of the company that imported the burner was stated to be valid only if it was under their supervision, it was decided to keep the burner in the same place where it was installed.

The Head of Mechanical Engineering explained that the engineer of the company that imported the burner had informed him that it was risky to move it to another location, and since the engineer of the Airports and Aviation Services (Sri Lanka) (Private) Limited also agreed, it was decided to leave the burner in its current location.

4.5 The Four-Lane Access Road to Minuwangoda Road

The consultancy firm had planned to construct a two- or four-lane access road from the passenger terminal building to Minuwangoda Road, but the Road Development Authority, under the supervision of the Airports and Aviation Services (Sri Lanka) (Private) Limited, proceeded to construct a four-lane access road to Minuwangoda Road without informing the consultancy firm, which has made it problematic to construct the parking lot at the location originally planned by the consultancy firm.

As explained by the Head of Civil Engineering (Planning & Design), the access roads were congested due to the increase in the number of passengers using the airport in 2018, and as a solution, a four-lane access road was constructed within a short period of time. Due to this change, it was submitted that the parking lot could not be constructed as per the original plans of the consultancy firm, but it was possible to construct it on the other side of the road.

According to the 2022 Airport Design Reference Manual, the parking lot requires a minimum distance of 91 meters from the passenger terminal

building, but in the consultancy firm's 2012 plan, this distance was only 40 meters, and since the new location is located 100 meters from the passenger terminal building, it is more appropriate to construct it at the new location from a safety perspective.

The Committee expressed its strong displeasure over this situation and emphasized that it is a loss to the country that the Rs. 2.5 billion spent on the consultancy firm's plans could not be properly utilized. The Committee further emphasized that if the distance from the parking lot to the passenger terminal building in the original plan was a safety threat, it could have been corrected at that time.

05. Re-appointment of Mr. Keiya Nishio, Project Management Officer of JAC/NK Company, as Chief Project Officer

The Committee drew attention to several letters sent by the then Chairman of the Company to the management of the consultancy firm in 2017. The Committee observed that the commencement of construction of both Packages A and B had been delayed due to the poor coordination, poor supervision and weaknesses in the planning of the consultancy firm.

Furthermore, the Committee observed that, in 2017, the Secretary to the Ministry of Transport and Civil Aviation had informed the Japan International Cooperation Agency (JICA) to remove the Project Management Officer, Mr. Keiya Nishio, from his position on account of significant errors, negligence, and lack of the requisite competence. The Committee further noted that, in 2018, another individual had been appointed as Project Manager in place of Mr. Nishio; however, by 2020, Mr. Nishio had been appointed as Chief Architect and, subsequently, as Project Implementation Coordinator for Package A. The Committee

inquired as to the rationale for the 2020 reappointment of Mr. Nishio, who had previously been removed from his position in 2018.

The Head of the Project Division informed the Committee that, following the removal of Mr. Keiya Nishio from the project, another individual was appointed as Chief Project Manager. However, due to that person's lack of knowledge regarding the plans for Package A., the supervision of the contractor's work was not carried out effectively, resulting in delays to the project. Consequently, Mr. Keiya Nishio, who possessed a thorough understanding of the plans for Package A — was appointed as Project Implementation Coordinator, and was further noted to have demonstrated competence in his capacity as an architect.

The Committee emphasized that it could not be satisfied with the consulting company's process.

The Executive Managing Director of the consulting company informed the Committee that Mr. Keiya Nishio had been involved in this project for about 10 years, that he was a very skilled and knowledgeable engineer, that he had been involved in over 100 airport projects globally, including major airports in Japan, that although the Japan International Cooperation Agency (JICA) had not paid the consulting company a significant amount of arrears (an amount exceeding the consulting company's capital contribution), he would continue to support the project by sending project staff to Sri Lanka, and that although he was a management officer in Japan and did not have sufficient knowledge regarding this project, he would seek the views of the consulting company's officials in Sri Lanka on the matters reported to the Committee, and accordingly, he would provide the Committee with an official response regarding the matters discussed at the Committee regarding the consulting company in the future.

06.Observations of the Committee

1. The Committee emphasized that since the airport is expected to handle 3 million passengers in the future, in addition to the number currently handled, it is very important that the passenger terminal building and other facilities be constructed as soon as possible without further wastage of money.
2. Furthermore, the Committee emphasized that the responsibility for Phase II Step 2 of the Bandaranaike International Airport Development Project (BIADP) should be assumed by all three parties, namely the consulting company, the project management unit, and the company's project division.
3. The Committee informed that two members of the Committee will be nominated to oversee the future work of the projects and that they will also discuss with the Ministry and provide support for the early completion of the project.

Recommendation of the Committee

- **Conducting a forensic audit of the entire process, including Packages A and B of Phase II Step 2 of the Bandaranaike International Airport Development Project (BIADP).**

Officers/Institutions Responsible for implementing recommendation

- Secretary - Ministry of Transport, Highways, Ports and Civil Aviation

7. Field inspection conducted by the Committee at Bandaranaike International Airport on 09th April 2025.

The Committee conducted a field inspection at Bandaranaike International Airport on 09 April 2025, during which it carried out an observation tour of the airport with officials of Airports and Aviation Services (Sri Lanka) (Private) Company Limited, the Project Management Unit, and JAC/NK Consulting Company.

The Committee inspected the multiple parking bays at the airport, the location of the new passenger terminal building under construction, the proposed site of the multi-storey car park, and other operational and problematic areas related to Packages A and B of Phase II, Step 2 of the Bandaranaike International Airport Development Project (BIADP). Accordingly, the Committee was able to gain a practical understanding of the difficulties faced by the relevant development project.

Deputy Project Manager, Director of the Project Management Unit, Head of Airport Management, the Chief Project Officer of the Consulting Company Mr. Keiya Nishio, Sri Lankan Airlines Ground Handling Officers, Ceylon Petroleum Corporation Operations Representative, and other officials joined the Committee in discussions on the history and current issues of Packages A and B of Phase II, Step 2 of the Bandaranaike International Airport Development Project (BIADP).

Phase II, Step 2 of the Bandaranaike International Airport (BIA) Development Project (BIADP) has commenced with the aim of expanding the airport's capacity to accommodate additional passengers and aircraft.

In 2013, the new passenger terminal was redesigned to accommodate 15 million passengers, with the expansion divided into Package A and Package B. Package A included the passenger terminal building, passenger pier, access roads, water treatment plant, and toilets.

Package B primarily covers the Remote Apron and taxiway.

7.1. Package A - passenger terminal building, passenger pier, access roads, water treatment plant, and toilets

The contract for Package A was awarded in March 2020 during the COVID-19 pandemic, and construction officially commenced in December 2020.

The main challenges faced by the project included the impact of the COVID-19 pandemic, the economic crisis, and financial difficulties. COVID-19 caused staffing issues and project delays. During 2021–2022, the project was further hampered by fuel and electricity crises and a shortage of construction materials in the country. In June 2022, Sri Lanka notified the Japan International Cooperation Agency (JICA) that it would be unable to repay its loan.

Subsequently, the Committee was informed that the Japan International Cooperation Agency (JICA) suspended the issuance of loans in June 2022, and that Airports and Aviation Services (Sri Lanka) (Private) Limited attempted to obtain Cabinet approval to use internal funds to proceed with the project; however, a delay in receiving the approval ultimately contributed to the termination of the project.

The Committee observed that after the conclusion of the project, site management and the protection of materials and equipment purchased for the project have become difficult, with problems such as theft and damage to valuable materials like plywood, wood, and iron, and challenges in securing the project site due to a shortage of security personnel and that the Cabinet and management discussed and formulated strategies to minimize these issues, but the safe storage of some materials remains a concern.

7.2. Package B - Remote Apron and taxiway.

Multiple parking bays were included in the design of this project, planned primarily for narrow-body aircraft. It was expected to increase the apron capacity from 25 to 48 aircraft, allowing for the simultaneous servicing and refueling of two narrow-body aircraft.

However, the location of fuel hydrant pits, essential for aircraft operations, posed practical difficulties, as problems could arise when an aircraft's landing gear, particularly the hot nose wheel, passed over them.

The Committee was informed that these practical difficulties were revealed by simulations conducted in early February 2022, following the project handover on 26 January 2022.

Specific issues identified:

1. Location of fuel supply points (Fuel Hydrant Pits).
2. Vehicles are unable to pass near certain signs due to ICAO (International Civil Aviation Organization) regulations.
3. Insufficient maneuvering space for aircraft.
4. In some cases, the tug used to push back aircraft may enter the normal service route, creating a safety hazard and disrupting normal traffic.
5. Insufficient space on approach roads for aircraft.

The origin of the problem related to the location of fuel supply points:

- According to the Deputy Head of the Project Division of Airports and Aviation Services (Sri Lanka) (Private) Company Limited, the location of the fuel supply points was initially planned by the consulting company.
- However, the design and building of the relevant fuel supply points were the responsibility of the Ceylon Petroleum Corporation contractor.

- Accordingly, several rounds of discussions have been held between the Ceylon Petroleum Corporation contractor and the consulting company regarding the coordinates of the fuel supply points, and ultimately, both parties have reached an agreement to construct the fuel supply points according to the consulting company's plan.
- The Deputy Head of the Project Division of Airports and Aviation Services (Sri Lanka) (Private) Company Limited was of the opinion that the location of the constructed fuel supply points was in line with the consulting company's plan, and accordingly, the consulting company should be responsible for operational issues.
- However, the Chief Project Officer of the consulting firm, Mr. Keiya Nishio, was of the opinion that although his company planned the location of the fuel supply points, the exact coordinates of those points were ultimately determined by the contractor of Ceylon Petroleum Corporation.

The Deputy Head of the Project Division of the Airports and Aviation Services (Sri Lanka) (Private) Limited further disclosed that although the relevant issues have been identified through simulations, discussions are ongoing to rectify the same.

7.3. Project Management, Supervision and role of the Consulting Firm:

The Committee observed that the project is supervised as follows.

- The employer, Airports and Aviation Services (Sri Lanka) (Private) Limited, is legally represented by the Project Director of the Project Management Unit
- The Project Management Unit (PMU) has a limited scope. That is, it mainly focuses on supervising the consulting firm.

- The company's project division primarily coordinates the requirements of various departments of the employer, Airports and Aviation Services (Sri Lanka) (Private) Limited, and provides them to the Project Management Unit.
- The Project Management Unit inform the consulting firm of these requirements and the consulting firm ensures that the relevant requirements are fulfilled through the contractor.
- The consulting firm bears significant responsibility for the project.

These responsibilities include:

a) Planning and monitoring:

The consulting firm is responsible for project planning, Supervision of the contractor's construction, selecting material, measuring the progress, and quality assurance.

b) Certification of payments:

The consulting firm certifies the payment and the Project Management Unit does not have the authority to reduce the relevant amount once certified.

c) Responsibility:

The consulting firm shall be contractually liable for ensuring proper advice and technical coordination

The Committee emphasized that this situation has arisen as a result of the lack of proper coordination between the plan provided by the consulting firm and the requirements of the Ceylon Petroleum Corporation and the Airports and Aviation Services (Sri Lanka) (Private) Limited.

***Annexure – Moments of Field inspection conducted at Bandaranaike
International Airport***



Explanation of ground handling at Multiple Parking Bay



Observing the location of a Fuel Hydrant Pit of a multi-Parking Bay



A Multiple Parking Bay



The new passenger terminal building, the construction of which has been stalled.



The new passenger terminal building, the construction of which has been stalled.



How unused building materials pile up due to the halt in the construction of the new passenger terminal building

*Fourth Report of the Committee on Public Enterprises of the First Session of the Tenth
Parliament of the Democratic Socialist Republic of Sri Lanka*
