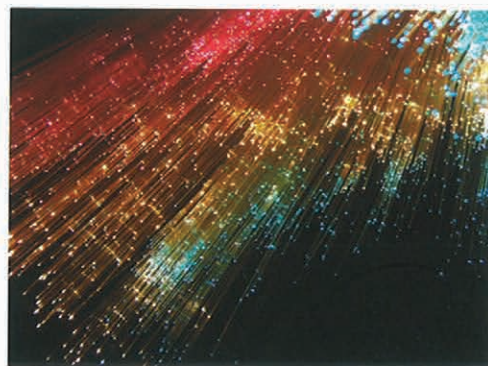


ANNUAL REPORT 2010



Telecommunications
Regulatory Commission
of Sri Lanka

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Message of His Excellency the President

Despite the ravages of terror, where the centers of telecommunication were frequent and major targets through three decades, it is noteworthy that Sri Lanka is today among the most widely connected countries in the South Asian Region. We are now moving steadily to harness the immense potential of Telecommunication and Information Technology for the strengthening of peace and development.

The information in this report shows the major contribution of the telecommunication industry, led by the mobile telephone segment, as a very fast growing area of development in the past decade. This growth is particularly strong in the post-conflict period of

peace and stability, when large areas of the country were open for development. It is a challenge for enterprise and investment that has been well met by the Telecommunication Industry and the Regulatory Authority.

We also see a remarkable expansion of Information Technology (IT) where, in five years from 2005, computer literacy in the country has grown from less than five per cent to nearly 30 per cent, with reasonable projections for growth being much more rapid. This is particularly encouraging in the context of the importance given by the Government to rapid expansion in the learning of English and the spread of IT, in the new strategy of economic growth for the country.

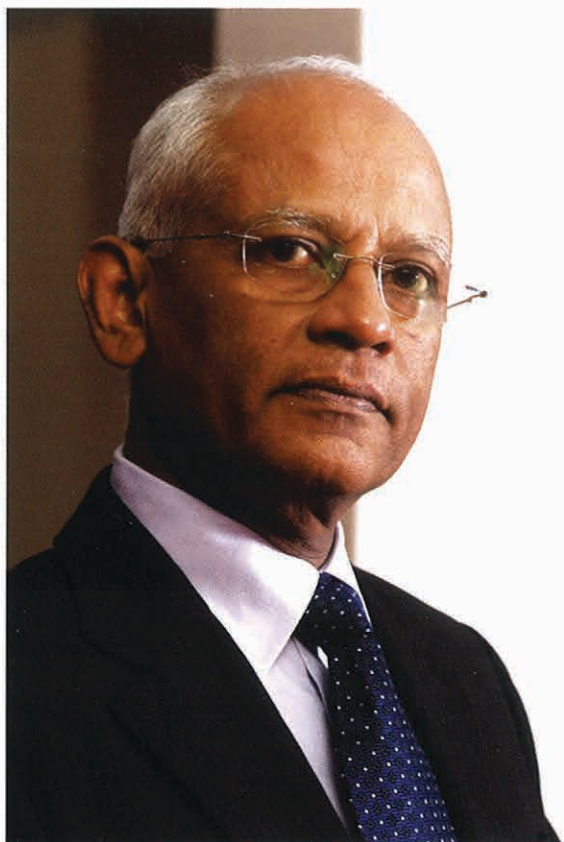
Having understood the importance and needs of a knowledge society, we are committed to taking both computer literacy and IT to the furthest reaches of our country, especially to the rural sector that has the bulk of our population. This has led to success in establishing more than 600 Nenasalas or Knowledge Centers in all provinces bringing information that is important to progress of the rural economy, assisting in rural business development and advancing rural education.

As we make such remarkable progress in the growth of telecommunication and IT, it is necessary to be aware of the dangers of the "digital divide" that can lead to new divisions in society, that do not further the cause of progress. It is, therefore, necessary to ensure that progress in these advancing fields of technology is

equitable in every manner to benefit all sections of society.

While valuing the advantages of IT, we must also be alert to the dangers that the Internet and aspects of social media can hold for children and youth, who comprise the nation's most valued asset for the future. The Government is therefore committed to taking all measures considered reasonable in a democratic society to protect the vulnerable sections of society from the dangers of cyberspace, now drawing the attention of those concerned with the progress of modern society.

It is necessary to congratulate the Telecommunications Regulatory Commission of Sri Lanka for steering the Telecommunication Industry on this path of progress, and overseeing the expansion of IT in our country, with the promise of continued success in the years ahead. I wish it all success in achieving the challenging goals of the future.



Chairman's Message

With the revolutionary advances being made in digital and information technology today, the productivity of all sectors of an economy is dependent on progress in the telecommunications infrastructure. Despite the constraints of a thirty year conflict that affected progress in many ways, Sri Lanka stands high in South Asia today, having one of the most modern telecommunication industries in the Region.

There are several firsts within the Region to our credit, these include taking the lead in introducing technologies such as Global System for Mobile Communication (GSM), Code Division Multiple Access (CDMA) fixed wireless telephone services, and General Packet Radio Service (GPRS). The effect of this is the

remarkable penetration of telephones in our society, with an overall 100.9 per cent of composite penetration by end 2010, as seen by 17.3 million mobile subscribers and 3.6 million of fixed lines in a population of a little over 20 million.

The country has also shown commendable progress in the expansion of Information Technology (IT), with computer literacy reaching nearly 30 per cent in past five years, and the expansion of telecommunications giving greater access to the Internet. During the past decade Internet usage has moved from a meager 0.5 per cent in 2000 to 5.5 per cent in 2009, and a leap to 8.3 per cent in 2010; a clear example of post-conflict progress in the Telecommunication and IT sectors. This rapid progress, combined

with the Government's policy of giving priority to the learning of English and IT expansion, is moving the Internet closer to the people, with more citizens using the Internet for day-to-day business transactions, its availability expanding to the rural sector, and important steps being taken to streamline administration through E-governance.

These advances have resulted in Sri Lanka being placed 66th among 138 countries in the Network Readiness Index (NRI) of 2010/11, indicating steady progress from the 86th ranking it held in 2006/07, and the 72nd place in 2008/09. This significant progress was possible due to the contributions of both the Government and Private Sectors to meet the new challenges of growth in the Telecommunication and IT Sectors.

It is also necessary to record the role of the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) in guiding these sectors in the past decade, and especially in the post-conflict phase, which offered both the biggest challenges and opportunities. A measure of great importance taken by the TRCSL was the introduction of floor prices and interconnection rates, to prevent an unhealthy competitive race in tariff packages that threatened the stability of the Telecommunications Industry. It also introduced a benchmarking process for ADSL, Wi-Max and HSPA to monitor the quality of service associated with broadband internet services offered to the public.

Among the significant objectives of the Mahinda Chinthanaya, is the

establishment of Sri Lanka as a Regional Hub for Asian telecommunication networks. The other regional hubs envisaged in the Government's strategy for progress – those of energy, commerce and trade, naval/maritime and aviation, and knowledge – will depend heavily on the advances in Information and Communication Technology (ICT) and Telecommunications for their own success. The proper direction of the Telecommunications Industry to achieve this objective in the coming years is a necessity to reach the goals of national development.

The TRCSL is aware of this responsibility and, as the record of success in the recent years have shown, has addressed itself to meet the increased demand for quality of service, proper regulation, and acquiring the latest technologies that would give a fillip to the economic growth of Sri Lanka, and improve the quality of life of the people. It is a commitment to achieving the best for Sri Lanka in an increasingly competitive environment of technological progress.



Lalith Weeratunga
Chairman



Director General's Review

This report includes information on the functions and performance of the different Divisions/Units of TRCSL. The activities carried out in 2010 have been discussed under performance of each Division/Unit.

The major responsibilities of TRCSL include enforcement of the provisions in the Act and the conditions in the licences by the licensed operators, fostering fair and sustainable competition among the licensed operators, ensure that telecommunication services are reasonably priced, consumer protection, social regulation, regulation of bottleneck facilities and scarce resources, ensure high quality telecommunication services, promote Good Governance by ensuring a transparent decision making process and helping civil society to become

an "informed" society in this modern information and communication age.

Several measures have been taken by the TRCSL for the development of the telecom industry. As at end of 2010, telecommunication sector comprised of four fixed line operators, five mobile operators, thirty three External Gateway Operators and eight ISP (Internet Service Provider) operators. The cumulative number of licenses granted under Section 17 of the Act to operate telecommunication systems as at end of 2010 was 64.

With the entry of a large number of operators the market became highly competitive. Consequent to the high competition in the telecommunication market, a drop in prices of the services occurred over a period of few years.

The highly competitive tariff packages tended to unsettle the market eroding into the profits of the operators and threatened the stability of the telecommunication sector. With a view to preventing the deterioration of the industry through intense price competition, TRCSL introduced floor prices and interconnection rates for the mobile industry. These rates were subsequently extended to cover all fixed services. These measures ensured fair pricing and competition for market players to a great extent by preventing unhealthy price competition and helped stabilize the industry.

In certain countries Governmental and non-Governmental institutions come forward to ensure the rights of the telecom subscribers. The absence of such a mechanism in the country has added more weight on the TRCSL in recent times especially due to broadband operators not complying with ethical practices to meet the ongoing competition. Therefore the TRCSL as the telecom regulator is on continuous watch to see whether the operators are treating its customers respectfully when providing broadband services.

We have set up a special unit at the TRC to monitor all broadband services. Our observations came up with the conclusion that this area was in a very poor state. Accordingly, we started a benchmarking process for fixed broadband services - ADSL and WIMAX. We monitored the quality and speed of each service provider and published the results in the TRC website. Because of this benchmarking

system the operators had to improve the services. Before publishing the findings we gave the operators a grace period to improve the services.

TRCSL has issued a number of guidelines in the best interest of broadband subscribers. The guidelines were developed by the National Broadband Consultative Committee (NBCC). We have seen a drastic improvement in this field after this initiative. It was a big achievement for the TRCSL.

TRCSL has also established a separate Unit to deal with consumer complaints and a large number of subscribers have benefited from the services of this Unit. A project has been implemented to make telecommunication services available for people with disabilities. As per the stipulations of the Act, action has been taken to promote research and development in telecommunication sector in co-operation with operators, universities and other research institutes. TRCSL has made its contribution to the activities of several international organizations in the telecommunication sector such as International Telecommunication Union (ITU), Commonwealth Telecommunication Organization (CTO), South Asian Telecom Regulators Council (SATRC), Asia Pacific Telecomm unity (APT) etc. With the rapid development of Information and Communication Technology the internet has become a multi-faceted tool. Apart from mere communication and entertainment, we can see many opportunities of this wonderful tool - tele medicine,

citizens' services, help during disaster management etc. However, only a small percentage of the population make use of e-transactions currently.

This scenario is bound to change in the future. The most crucial thing in this respect is creating awareness among the people and making facilities available, accessible and affordable to the people. Along with the expansion and development of internet we have observed that there has been a marked increase in internet related complaints as well. Following court orders TRCSL had to take action to block certain websites which were harmful to the society.

Telecommunications is a fast developing field and therefore the staff involved in telecommunication regulation has to continuously update their knowledge and skills in the field. Accordingly, TRCSL provided opportunities for the staff to participate in programmes, workshops, seminars, and meetings relevant to the telecommunications field.

The telecom industry has made a substantial contribution directly and indirectly to the national output. An amount of Rs.27 billion was remitted from the industry to the consolidated fund of the Government in 2010. The industry also received a considerable amount of foreign direct investment in 2010.

One of the significant objectives of the Mahinda Chintanaya, ie. the policy document of the present Government is the establishment of Sri Lanka as a Regional Hub for Asian

telecommunication networks and TRCSL is thriving to achieve this objective in the near future with the cooperation of all the stakeholders.



Anusha Palpita

Director General

Composition of the
Telecommunications
Regulatory Commission
(TRCSL) & the Staff
as at 31 Dec 2010

Commission

Mr. Lalith Weeratunga

- *Chairman*

Mr. Anusha Palpita

- *Member*

Mr. S.S. Sahabandu

- *Member*

Mr. Prasanna de Silva

- *Member*

**Principal Staff of the
Telecommunications Regulatory
Commission**

Mr. Anusha Palpita

- *Director General*

Commission Office

Mrs. A.K.A.Silva

- *Secretary to the Commission*

Administration Division

Mr. U.N. Rodrigo

- *Consultant/Director Administration (Actg)*

Mr. S.P.S. Perera

- *Dy. Director Administration &
Human Resources*

Policy & International Relations Division

Mr.M.K.Jayasekara
- Deputy Director/ Policy & International Relations

Mr.I.M.Jawsi
- Assistant Director/International Relations

Mr.R.M.J.K.B.Ratnayake
- Assistant Director/Policy

Economic Affairs Division

Mr.H.N.Jayaweera
- Director / Economic Affairs

Mrs.Champa Waragoda
- Deputy Director/Compliance

Mr.H.W.K.Indrajith
- Actg. Deputy Director/Competition & Assistant Director - Sector Analysis

Mrs.H.P.M.Pathirana
- Assistant Director/Operator Analysis

Mr.C.N.Palihawadana
- Assistant Director/Tariffs

Mrs.Sriyani Mawellage
- Assistant Director/Consumer Relations

Spectrum Management Division

Mr.R.G.H.K.Ranatunga
- Deputy Director/Spectrum Management

Mr.E.N.P.K.Rathnapala
- Assistant Director/SM/Broadcasting & Monitoring

Ms.K.S.M.Vishakha
- Assistant Director/SM/Fixed Services/ Satellite Services

Mr.K.A.D.Fernando
- Assistant Director/SM/Information Technology

Mrs.R.M.T.K.P.Livera
- Assistant Director/SM/Mobile Services

Mrs.S.A.R.Kamalanayana
- Assistant Director/Aeronautical & Maritime Services

Mr.S.E.Wakista
- Assistant/Director/ Monitoring/Data/ Amateur

Mr.M.P.Gunasinghe
- Assistant Director/Private Mobile Radio

Network Division

Mr.W.D.de Alwis
- Deputy Director/ Networks

Mr.L.Ganeshamoorthi
- Assistant Director/Technical Standards

Mr.M.C.M.Farook
- Assistant Director/Type Approval & Data Switching

Mr.J.A.S.Gunanandana
- Assistant Director/Inter Operability

License Administration Division

Mr.H.P.Karunarathna
- Deputy Director/License Administration

Legal Division

Mrs.G.C.P.Moragoda
- Assistant Director/ Legal

Mrs.R.S.Goonaratne
- Assistant Director/ Legal

Information and Documentation Unit

Mr.Kapila Jayawardena
- Technical Officer/
Assistant Director-Information & Documentation (Covering Up)

Mrs. Priyani Hettiarachchi

- *Librarian*

Mrs. Damayanthi Samarakon

- *Librarian*

Finance Division

Mr. R.C.Ratnayaka

- *Deputy Director Finance*

Mr.R.P.Abayadeera

- *Assistant Director/Expenditure*

Mr.A.S.Hapuarachchi

- *Assistant Director/Revenue*

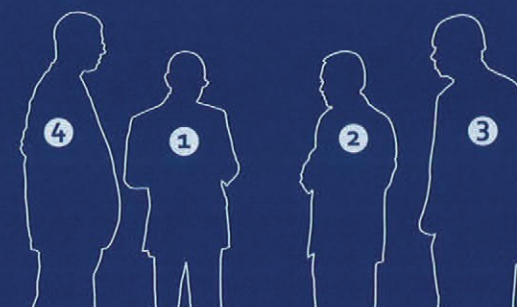
Internal Audit Division

Mrs.U.A.Samaratunga

- *Chief Internal Auditor*



Members of the Commission



- ① Mr. Lalith Weeratunga - *Chairman*
- ② Mr. Anusha Palpita - *Member*
- ③ Mr. S.S. Sahabandu - *Member*
- ④ Mr. Prasanna de Silva - *Member*

Corporate Management



1. Mr. Lalith Weeratunga - *Chairman*
2. Mr. Anusha Palpita - *Director General*
3. Mr. U.N. Rodrigo - *Director Admin, Actg. & Consultant*
4. Mr. H.N. Jayaweera - *Director/Economic Affairs*
5. Mr. A.P.A. Gunasekara - *Consultant*
6. Dr. Manoda Gamage - *Consultant*
7. Mr. Sanath Siriwardena - *Consultant*
8. Mr. Senaka Kumara Weeraratne - *Consultant*
9. Mrs. U.A. Samaratunga - *Chief Internal Auditor*
10. Mr. M.K. Jayasekara - *Dy. Director - Policy & International Relations*
11. Mr. W.D.De Alwis - *Dy. Director - Network*
12. Mr. R.G.H.K. Ranatunga - *Dy. Director - Spectrum Management*
13. Mr. H.W.K. Indrajith - *Actg. Dy. Director - Competition*
14. Mr. A.S. Hapuarachchi - *Actg. For Dy. Director - Finance*
15. Mrs. R.S. Goonaratne - *A.D. Legal & Actg. Secretary Commission*
16. Mrs. R.M.T.K.P. Livera - *A.D. - Spectrum Management*
17. Mr. E.N.P.K. Rathnapala - *A.D. - Spectrum Management*
18. Mr. M.C.M. Farook - *A.D. - Network*
19. Mr. R.M.J.K.B. Rathnayake - *A.D. - Policy & Int. Relations*
20. Mrs. H.P.H.M. Pathirana - *A.D. - Econ. Affairs*
21. Mr. L. Ganeshamoorthi - *A.D. - Network*
22. Mr. R.P. Abayadeera - *A.D. - Expenditure*
23. Mrs. G.C.P. Moragoda - *A.D. - Legal*
24. Mrs. Sriyani Mawallage - *A.D. - Econ. Affairs*
25. Mr. I.M. Jaws - *A.D. - Policy & Int. Relations*
26. Mr. C.N. Paliawadana - *A.D. - Econ. Affairs*
27. Mrs. S.A.R. Kamalanayana - *A.D. - Spectrum Management*
28. Mr. S.E. Wakista - *A.D. - Network*
29. Mr. M.P. Gunasinghe - *A.D. - Spectrum Management*
30. Mr. J.A.S. Gunanandana - *A.D. Spectrum Management*
31. Mr. Kapila Jayawardana - *A.D./Covering Up I & D*
32. Mr. W.L.A.K.A. Gunathilaka - *Actg. A.D. - Admin*



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List of Acronyms

3G	Third Generation
ACMA	Australian Communications and Media Authority
ADSL	Asymmetric Digital Subscriber Line
APT	Asia Pacific Telecommunity
ARO	Amateur Radio Operator
BOI	Board of Investment
CDMA	Code Division Multiple Access
CECB	Central Engineering Consultancy Bureau
CEO	Chief Executive Officer
CID	Criminal Investigation Department
CMA	Certified Management Accountancy
COSPASA	Cosmicheskaya Sistema Poiska Avariynyh Sudov
CTO	Commonwealth Telecommunications Organization
ELT	Emergency Locator Transmitter
FM	Frequency Modulation
FUP	Fair Usage Policy
GPRS	General Packet Radio Service
GSM	Global System for Mobile
HSPA	High Speed Packet Access
IBRD	International Beacon Registration Database
ICT	Information and Communication Technology
ICTAD	Institute for Construction Training and Development
IDF	Institutional Development Fund
IMEI	Implementation of Mobile Equipment Identity
IMO	International Maritime Organization
InGAF	Institute of Government Accounts and Finance
IP	Internet Protocol
ISP	Internet Service Provider
ITU	International Telecommunications Union
ITU-T	ITU-Telecommunication Standardization Sector
Kbps	Kilo Bytes Per Second
LAN	Local Area Network
LECO	Lanka Electricity Company (Private) Limited
MDGs	Millennium Development Goals
MHz	Mega Hertz
MNP	Mobile Number Portability

NBN	National Backbone Network
NGAN	Next Generation Access Network
NGN	Next Generation Network
PC	Procurement Committee
PIM	Postgraduate Institute of Management
PLB	Personal Locator Beacon
PSTN	Public Switching Telephone Network
QoS	Quality of Service
SAR	Specific Absorption Rate
SAARC	South Asian Association for Regional Co-Operation
SAFIR	South Asia Forum for Infrastructure Regulation
SARSAT	Search And Rescue Satellite- Aided Tracking
SATRC	South Asian Telecom Regulators' Council
SIM	Subscriber Identity Module
SL	Sri Lanka
SLIIT	Sri Lanka Institute of Information Technology
SLITAD	Sri Lanka Institute of Training and Development
SMS	Short Message Service
TAC	Type Allocation Code
TEC	Technical Evaluation Committee
TOR	Terms of Reference
TRCSL	Telecommunications Regulatory Commission of Sri Lanka
TRIVES	TRCSL Imei Verification System
TV	Television
UCSC	University of Colombo School of Computing
USD	United State Dollar
USO	United Satellite Organization
WG	Working Group
WIMAX	World Wide Interoperability for Micro Wave Access
WSIS	World Summit on the Information Society
WTISD	World Telecommunications and Information Society Day
WTSA	World Telecommunication Standardization Assembly

Chapter 1

Overview of Telecommunication Sector

The history of Telecommunication in Sri Lanka dates back to 1858 with the commissioning of the first telegraphic circuit between Colombo and Galle. Year 1880 signifies the installation of the first telephone line. Until the government took over in 1896, it remained with private ownership of Oriental Telephone Company. Since 1896, Telecommunication has been a government monopoly until early 1991, when Sri Lanka embarked on a policy of deregulation and liberalization of telecommunication sector. The first data communication licence was issued to Lanka Communication Services (Pvt.) Limited, and the first cellular mobile licence was issued to Celtel Lanka (Pvt.) Limited in 1991. Since then Sri Lankan telecommunication market has been an attractive investment ground for local and foreign investors. Today the telecommunications sector is governed by the Sri Lanka Telecommunications Act, No.25 of 1991 as amended by Act, No.27 of 1996, and by the institution formed under the Act, the Telecommunications Regulatory Commission of Sri Lanka (TRCSL). In this report the term Act

denotes the Sri Lanka Telecommunications Act No. 25 of 1991 as amended by Sri Lanka Telecommunications (Amendment) Act No. 27 of 1996. The term Commission denotes the Telecommunications Regulatory Commission of Sri Lanka (TRCSL).

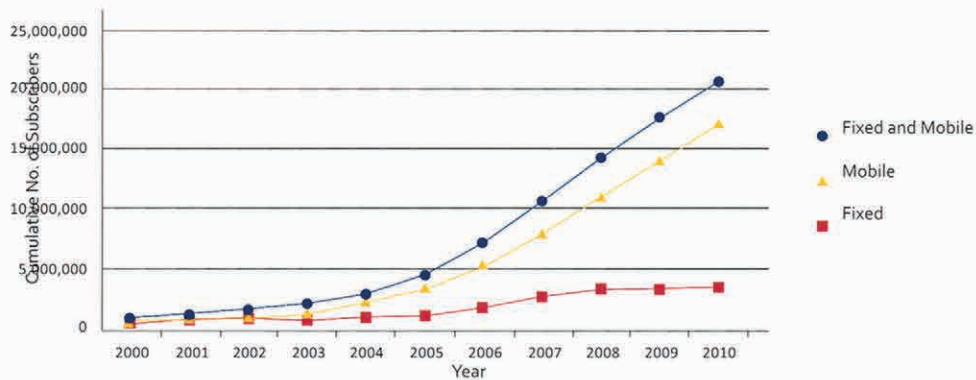
The telecommunications industry has played a significant role in the economic and social development of Sri Lanka. In the last couple of decades, a large portion of growth of the service industry in Sri Lanka has been attributed to the development of telecommunications industry. Improvements in communication, both within and outside the country and greater access to information have improved livelihoods, lifestyles and the quality of life of nearly all segments of the population. Sri Lanka's telecom industry has grown very rapidly in the recent past with restoration of peace after nearly three decades of armed conflict.

The Telecommunication, Television, Radio and Information and Communication Technology (ICT) Services need to be well utilized for the country's advancement. The proper and efficient operation of the telecommunications network required to serve both national and international needs would lead to greater benefits for telecom operators, customers and other concerned parties.

Over the past decade, telecom industry has been a fast growing area of Sri Lanka's economy led by the mobile telephony segment. In fact there has been an exponential growth in the mobile telephony in the recent past. From only

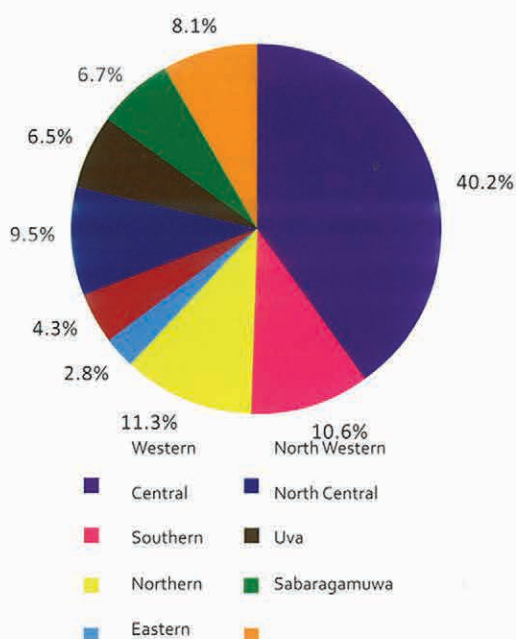
430,202 mobile subscribers in 2000, total mobile telephone connections have rocketed to 17,267,407 in 2010 indicating a compound annual growth rate of 44.7%. The mobile penetration rate (number of mobile telephones per 100 persons) was only 2.3% in 2000 and it rocketed to 83.6% in 2010. However, this number is deceptive as it is estimated that a substantial proportion of activated Subscriber Identity Module (SIM) cards are used by one and the same individual, implying that actual mobile telephony penetration is lower. This indicates that there is room for further increase in mobile telephony penetration in the country. In addition to the advantage of mobility, driving the phenomenal growth of mobile telephony has been the introduction of Global System for Mobile (GSM) communication technology which has enabled the delivery of Value Added Services to consumers, the availability of cheaper handsets with greater functionality, lower tariffs (on account of competition amongst operators) and the rising business activity levels and disposable incomes. The number of fixed access subscribers has increased from 767,411 in 2000 to 3,578,463 in 2010 indicating a compound annual growth rate of 16.7%. The composite telephone penetration (number of mobile and fixed telephones per 100 persons) has increased from just 6.3 % in 2000 to 100.9 % in 2010 and the greater contribution for this increase has been from the mobile telephony (Chart 1).

Growth of Subscribers 2000 – 2010 (Chart 1)



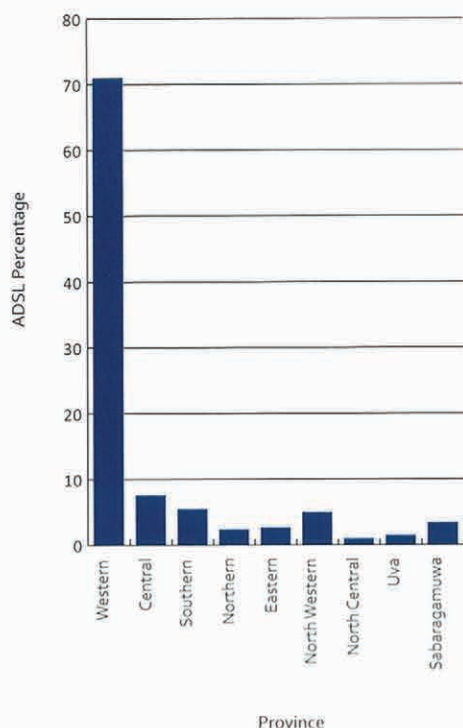
The percentage distribution of fixed telephones by province in 2010 is graphically shown in chart 2. It can be seen that 40% of the fixed telephones are in the Western province where the capital of the country is located. The Southern and Central provinces where the two largest cities next to Capital of Colombo are located rank the second and third positions respectively.

Distribution of Fixed Telephones by Province (Chart 2)



During the past decade the number of fixed service internet and email subscribers has increased sevenfold from 40,497 in 2000 to 280,000 (provisional) in 2010. In addition to fixed service internet and Email subscribers there were 292,470 broadband mobile subscribers in 2010. It should be noted that the number of internet and email users is much greater than the number connections since on many occasions, one connection is used by several persons (eg. Offices, Internet Cafes). Still the internet and email penetration remains at a low level and this is an area that needs improvement. As in many countries, there exists a digital divide between the internet-haves and internet-have-nots. A larger percentage of internet-haves live in urban areas and the have-nots in rural areas. Chart 3 shows the percent distribution of Asymmetric Digital Subscriber Line (ADSL) by province in 2010. It can be clearly seen that as much as 71% of ADSL is located in the Western province, the most urbanized province in the country.

Distribution of ADSL
by Province (Chart 3)



Many players have entered into the market making it highly competitive. As at end of 2010, telecommunication sector comprised of four fixed line operators, five mobile operators, thirty three External Gateway Operators and eight ISP (Internet Service Provider) operators. The cumulative number of licenses granted under Section 17 of the Act to operate telecommunication systems as at end of 2010 was 64.

Consequent to the high competition in the telecommunication market, a drop in prices of the services occurred over a period of few years. With the introduction of 'Upahara' and Blaster packages by two mobile operators, a rapid fall in prices of services offered by operators took place. These highly competitive tariff packages unsettled the market eroding into the profits of the operators and threatened the

stability of the telecommunication sector. With a view to preventing the deterioration of the industry through further price reductions thereby making the competition unhealthy, TRCSL in mid 2009 introduced floor prices and interconnection rates for the mobile industry. These rates were subsequently extended to cover all fixed services. With the introduction of floor prices and interconnection rates TRCSL could minimise the price war between the competitors to a great extent and stabilize the industry. TRCSL also introduced a bench marking process for Asymmetric Digital Subscriber Line (ADSL) and Worldwide Interoperability for Microwave Access (WIMAX) services to monitor the quality and speed of each service provider.

Sri Lanka's telecommunications sector is now almost a USD 1 billion industry. The telecom industry has made a substantial contribution directly and indirectly to the national output. An amount of Rs.27 billion was remitted from the industry to the consolidated fund of the Government in 2010 and it was a substantial increase over the remittance in 2009. The industry also received a considerable amount of foreign direct investment in 2010.

Sri Lanka can be proud of its most sophisticated telecommunications industry and it is perhaps on par with many developed nations. Sri Lanka has been a trailblazer in the South Asian region with regard to introduction of latest technologies such as GSM (Global System for Mobile communication), CDMA (Code Division Multiple Access), ADSL (Asymmetric Digital Subscriber Line),

GPRS (General Packet Radio Service) Internet access for mobile telephone, WiMax (Worldwide Interoperability for Microwave Access) broadband services, 3G (Third Generation) and 3.5G mobile communications and HSPA (High Speed Packet Access) mobile broadband Internet services.

Looking ahead, it is envisaged that both key parameters of minutes of usage per subscriber and revenue per minute will continue to improve, thus driving the industry forward. Sri Lanka's telecommunication service providers are

headed for better times in the future and they will reap the benefits of economic revival, underpinned by regulatory actions to preserve the industry vibrancy. Moving in tandem with the growth in telecom industry is the growth in Information and Communication Technology (ICT). Information and Communication Technology is a priority area of the Government and one of the significant objectives of the Mahinda Chintanaya is the establishment of Sri Lanka as a Regional Hub for Asian telecommunication networks and TRCSL is thriving to achieve this objective in the near future.

Chapter 2

Telecommunications Regulatory Commission of Sri Lanka (TRCSL) Origin, Vision, Mission, Objectives, Responsibilities & Functions

2. 1 Origin

The Telecommunications Regulatory Commission of Sri Lanka (TRCSL) is a Government Statutory Body established under Sri Lanka Telecommunications (Amendment) Act, No. 27 of 1996 which was passed in parliament for the amendment of the Principal Act namely Sri Lanka Telecommunications Act, No. 25 of 1991. The Principal Act was passed by the Parliament in 1991 to provide for the appointment of a Director General of Telecommunications and to transfer all property, rights and liabilities of the Department of Telecommunications to the Corporation named "Sri Lanka Telecom" established by order under section 2 of the State Industrial Corporations Act, No. 49 of 1957 and for the repeal of the Telecommunications Ordinance (Chapter 192) and for the matters connected therewith or incidental thereto. Accordingly, the Telecommunications Regulatory Commission of Sri Lanka is the successor to the Office of the Director General of Telecommunications. TRCSL does not provide telecommunications services but, encourages the efficient and orderly provision of these services by the operators.

2.2. Vision

To be recognized as a world leader in an advancing communication industry through scientific and regulatory excellence.

2.3. Mission

Ensure timely delivery of the service nation-wide at an acceptable quality and affordable cost through promotion of fairness and justice in a competitive market through a skilled and ethical workforce.

2.4. Objectives:

As per the Telecommunications Act the objectives to be achieved by the Telecommunications Regulatory Commission are as follows:

2.4.1 To ensure the provision of a reliable and efficient national and international telecommunication service in Sri Lanka satisfying all reasonable demands for such service including emergency services, public call box services, directory information services, maritime services, and rural services as may be considered essential for the national well being.

2.4.2 To secure that every operator shall have and employ the necessary technical, financial and managerial resources to ensure the provision of the services specified in the licence.

2.4.3 To protect and promote the interests of consumers, purchasers and other users and the public interest with respect to the charges for and the quality and variety of telecommunication services provided and telecommunication apparatus supplied.

2.4.4 To maintain and promote effective competition between persons engaged in commercial activities connected with telecommunication and promote efficiency and economy on the part of such persons.

2.4.5 To promote the rapid and sustained development of telecommunication facilities both domestic and international.

2.4.6 To ensure that the operators are able to carry out their obligations for providing a reliable and efficient service free of undue delay, hindrance or impediment.

2.4.7 To promote research into the development and use of new techniques in telecommunications and related fields.

2.4.8 To encourage the major users of telecommunication services whose places of business are outside Sri Lanka to establish places of business within Sri Lanka

2.4.9 To promote the use of Sri Lanka's international transit services

2.5. Responsibilities of TRCSL

2.5.1 Enforcement of the provisions in the Act and conditions in the licences by the licensed operators.

2.5.2 Foster fair and sustainable competition among the licensed operators.

i. Monitoring competition to ascertain whether operators are meeting public interests and objectives.

- ii. To ensure seamless interconnection between networks and services.
- iii. Establishing a general framework of open entry, non-burdensome and transparent licensing

2.5.3 Pricing

Ensure that telecommunication services are reasonably priced, taking into consideration affordability etc.

2.5.4 Consumer Protection

To have consumer safeguards in place, and to encourage citizen participation and open dialogue by conducting inquiries in to complaints made by consumers and members of the public.

2.5.5 Social Regulation

- i. Universal Access/Services
- ii. Ensure provision of universal access/ services to the rural communities, elderly and people who are differently able.
- iii. Emergency preparedness
- iv. To make telecommunication services available for people with disabilities.

2.5.6 Regulation of bottleneck facilities and scarce resources

- i. Spectrum Management
- ii. Numbering
- iii. Rights of Way
- iv. Space segment

2.5.7 High quality telecommunication services.

To ensure that telecommunication services are of a high quality which are

just, reasonable and affordable and which will satisfy the needs of the consumers.

2.5.8 Promote Good Governance.

Ensure a transparent decision making process, encouraging public participation and giving timely decisions by following principles of natural justice.

2.5.9 Ensure that the decisions are fair and impartial.

2.5.10 Help to build civil society by making it an "informed" society in this modern Information and Communication age.

2.6. Functions of TRCSL

In order to achieve the above objectives TRCSL performs the following regulatory functions:

2.6.1 Processing applications and issue of licenses

2.6.1.1 Licenses to operate telecommunications systems in Sri Lanka under Section 17 of the Act.

According to Section 17 of the Act, no person shall operate a telecommunication system in Sri Lanka except under the authority of a licence granted by the Minister on the recommendation of the Commission. However there are some exemptions from licensing and these exemptions are given in section 20 of the Act.

2.6.1.2 Licences for use of radio frequency and radio frequency emitting apparatus under section 22 of the Act.

As per section 22 (1) of the telecommunications Act, no person shall use any radio frequency or any radio frequency emitting apparatus in Sri Lanka or any part of the territorial waters of Sri Lanka or in any ship or aircraft registered in Sri Lanka, except under the authority of a licence issued by the Commission for that purpose.

2.6.1.3 Licences to operate a private network under Section 20(2) (a) of the Act

When a telecommunication system which does not require a licence as per paragraph (c) of subsection (1) of Section 20 of the Act extends beyond the boundaries of an area corresponding to the premises occupied by the person operating the system, it is required to obtain a licence from the Commission.

2.6.1.4 Vendor licences under Section 21 of the Act.

According to Section 21(1) of the Act no person shall by way of trade, manufacture, import, sell, offer for sale, deal in, transfer, hire, lease, demonstrate, maintain and repair any telecommunication apparatus, except under the authority of a license issued by TRCSL.

2.6.1.5 Licences for cabling works under Section 22A (1) of the Act

According to Section 22(A) (1) of the Act no person shall perform cabling work in any premises except under the authority of a licence issued by the Commission for that purpose.

2.6.2 Tariff Regulation.

2.6.2.1 Determine tariffs in consultation with the Minister as specified under Section 5(k) of the Act according to which the Commission has powers to determine in consultation with the Minister, the tariffs or methods for determining such tariffs, taking into account government policy and the requirements of the operators in respect of the telecommunication services provided by the operators.

2.6.2.2 Formulate pricing policies.

2.6.3 Monitoring and ensuring compliance with the Act (including rules and regulations made there-under) and licences by the licensed operators.

2.6.4 Monitoring and ensuring proper utilization of the radio frequency spectrum.

2.6.5 Responding to consumer complaints and holding inquiries/ investigations.

According to Section 9(1) of the Act when a subscriber or a member of the public makes a complaint to the Commission in relation to the telecommunication service provided by an operator, the Commission may make such investigations as it may deem necessary and shall cause such remedial measures to be taken as the circumstances of the case may require.

Section of the Act 9 (2) states that in the course of any investigation under section 9(1) the Commission may direct such

operator to take such steps as appears to it to be necessary for the rectification of any cause or matter which gave rise to the complaint, and direct that financial redress to be provided where appropriate.

2.6.6 Providing information to the public on quality and variety of telecommunication services and encourage their participation by conducting public processes and public hearings.

2.6.7. Issuance of Orders, Directions and Decisions by the Commission. TRCSL has followed a transparent procedure in issuing orders, directions or decisions.

Greater opportunity was offered to the industry participants, consumers and other interested parties to participate at public hearings and other forums.

The above mentioned functions were carried out by several Divisions/Units of TRCSL. The main functions of the different Divisions/Units and the performance of the respective Divisions/Units in the year 2010 are described in the following sections. It should be especially noted that although a certain activity / activities have been listed under a particular Division/Unit, such activity/activities have been carried out by that particular Division/Unit with the support of other Divisions/Units.

Chapter 3

Policy and International Relations Division

The Policy and International Relations Division consists of two units namely Policy Unit and International Relations Unit and the functions of these two Units are as follows:

3.1 Functions

3.1.1 Policy Unit

- Provide Policy advice on matters relating to the sector.
- Research Studies with the assistance of Universities and research institutions.
- Projects

3.1.2 International Relations Unit

- Co-ordinating the Commission's participation in various international organizations [eg. International telecommunications Union (ITU), Asia Pacific Telecommunity (APT), South Asian Association for Regional Co-operation (SAARC)].
- Circulating information received from international organizations within the Commission.
- Co-ordination of information gathering within the Commission and in country as required by international organizations of which Sri Lanka is a member.
- Provide required information to International Organizations

3.2 Performance

The Policy and International Relations Division carried out the following activities during 2010.

3.2.1 Research and Development in the Field of Telecommunications

One of the duties of the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) as set out in the Sri Lanka Telecommunications Act, No. 25 of 1991, as amended is "to promote, in co-operation with operators or otherwise, research and development in telecommunication at universities and research institutes in Sri Lanka".

The objectives of the program are:

- To improve research studies in the telecommunications sector.
- Encourage University staff and students to conduct research in the field of telecommunications
- Use research findings to effect improvements in the sector

Research Proposals were called from Universities and Research Institutions in December 2010.

3.2.2. 8th Annual Forum of the Commonwealth Telecommunications Organization (CTO)

The above event which was held from 13 – 15th September 2010 was hosted by Telecommunications Regulatory Commission in collaboration with International Telecommunication Union (ITU). All Divisions of the TRCSL contributed to successfully complete this event.

The theme of the Forum was "Towards Digital Commonwealth: Broadband connectivity for all". H E the President Mahinda Rajapakse declared open the 8th Annual Forum of the Commonwealth Telecommunications Organization (CTO) in Colombo on Sept. 13 morning, amidst a distinguished gathering comprising ICT Ministers, senior government officials, regulatory agency heads, international ICT experts, and other representatives from telecommunication sector of Commonwealth countries.



H.E. the President Mahinda Rajapakse declared open the 8th Annual Forum of CTO on Sept. 13th 2010.

Addressing the 50th Council Meeting and the Annual Forum of the Commonwealth Telecommunications Organization (CTO), H.E. the President Mahinda Rajapaksa, stated "For a country that has emerged from nearly three decades of brutal terrorism, Sri Lanka is today among the most widely connected countries and

societies in the South Asian Region. Today there are more than 14 million mobile phone users in a population that is a little over 20 million, a reach of over two-thirds of the population and the numbers keep increasing each day. This is in addition to the nearly 3.5 million users of Fixed Line telephones both wireless and cable linked. The growth in telecommunications is so fast and so vast that foreign investors have found this sector to be most profitable and the promise of success keeps growing. Moving in tandem with this growth in telecom is the growth in Information Technology which also gives cause for much satisfaction. In the short space of five years from 2005 to date we have seen computer literacy in Sri Lanka grow from less than 5 per cent to nearly 30 per cent. The projections for future growth are even more rapid. The policies that give priority to the learning of English and the spread of IT are key aspects of the new direction of economic growth of Sri Lanka. We also want to be a tri-lingual nation by the year 2020. Improvement of Telecommunications and high levels of computer literacy will contribute towards realizing the vision".

The general view of the speakers of the forum was that Commonwealth nations, especially the developing countries, could ensure faster growth for their economies if they take faster measures to ensure more rapid deployment of broadband and access to it by a larger percentage of their citizens. The Conference explored concrete ways to raise awareness of the full potential of the Internet, broadband and other

information and communication technologies in developing countries. The conference discussed matters related to identification of best-practice policies, regulation, investment options and deployment strategies to connect consumers in semi-urban and rural areas in the shortest possible time, the benefits of increased broadband use by consumers, standardization needs and issues to bridge and measure the standardization gap in Asia Pacific, and regulatory incentives for making broadband affordable to consumers. Discussions also covered the effective use of donor funds, the availability of other funding mechanisms including the CTO's initiative to create a Commonwealth Telecom Development Fund for broadband infrastructure and services. It also examined how the development of broadband networks contribute to both broader economic growth for nations, regional integration amongst nations, profitability for ICT operating companies, and overall global prosperity.

Stressing on the need for collaborative partnerships to find creative solutions to broadband availability, affordability and accessibility, the Chief Executive Officer (CEO) of the CTO, Dr. Ekwow Spio-Garbrah, said, "In an era where access to information and connectivity is of paramount importance to help bridge the North-South divide and urban-rural economic disparities, the global community must work in greater concert to ensure that every individual has access to basic broadband connectivity for purposes of improved literacy, education, knowledge, commercial and business

opportunities, and self-empowerment. For many disadvantaged people and communities broadband connectivity is the surest and cheapest way to make them integral citizens of the global village. It is our duty to work together to ensure that those deprived of this basic tool, especially in the undeserved regions, are provided this important link to communicate with the outside world." Dr. Spio-Garbrah added "the Forum provides an excellent opportunity to address issues concerning the strategies, plans and programmes for extending regional and continental broadband connectivity, as well as the funding gaps especially for terrestrial broadband investments."

Mr. Anusha Palpita, Director-General of TRCSL, in welcoming the delegates said "Sri Lanka is a country committed to deploying state of the art technologies in telecommunications, and is honored to host this historic event. He added "discussions at the Forum and the subsequent 50th Council Meeting would lead to fruitful outcomes and support the rapid expansion of broadband in the South Asian region. The expansion of communications facilities, especially through broadband, was growing at a prompt pace in Sri Lanka and TRCSL was committed to extending these facilities and the resulting benefits to consumers, particularly those living in the semi – urban and rural areas of the country. The conference would bring much benefit to Sri Lanka by providing exposure to international experience and global best practices for broadband strategies within other nations that may have particular

relevance to the country's national objectives in expanding broadband deployment, adoption and usage. It would strengthen Sri Lanka's capacity to review broadband strategies for Sri Lanka".

3.2.3. 50th Council Meeting of Commonwealth Telecommunication Organization

Following the 8th Annual Forum of the Commonwealth Telecommunications Organization (CTO) conference, the 50th Council Meeting of the CTO, hosted by Telecommunications Regulatory Commission of Sri Lanka (TRCSL) was held from 16-17 September.

With its historical beginning as the Pacific Cable Board in 1901, the Commonwealth Telecommunications Organization (CTO) is a pre-eminent international ICT organization that draws its membership from all Commonwealth countries (Full Member country membership) and entities, whose functions and activities are compatible with the purposes of the CTO (Sector membership). CTO delivers unique knowledge sharing programmes on the use of Information and Communication technologies (ICT) in specific areas of telecommunications, information technology and broadcasting as well as the internet within the Commonwealth countries.

With its headquarters based in London and recipient members based in Europe, the Caribbean, Americas, Africa and Asia-Pacific region, the CTO has been at the centre of continuous and

extensive international communications development funding, co-operation and assistance programmes. CTO comprises 50 full and associate Commonwealth member countries. The CTO's mission is to reduce global poverty through the more efficient utilization of ICTs, and its development agenda reflects the priorities specified in the United Nations Millennium Development Goals (MDGs).

Mr. Lalith Weeratunga, Secretary to the President and Chairman of the Telecommunications Regulatory Commission, was unanimously elected as Chairman of the Commonwealth Telecommunications Organization (CTO) at the 50th Council Meeting held in Colombo, Sri Lanka, from September 16-17, 2010.



The chairmanship of the CTO being handed over to Mr. Lalith Weeratunga, Secretary to the President and Chairman of the TRCSL

3.2.4 ICT for Disempowered / Marginalized Communities (ITU/TRC Assistance Project)

The Telecommunications Regulatory Commission in association with the International Telecommunications Union (ITU) implemented a joint ICT

development programme (2nd stage of the project) for the benefit of disabled and handicapped persons having special needs. Under this programme the following activities were completed in 2010.

- i. A ceremony was held in January 2010 to hand over ICT equipment worth Rs 8.5 million to schools, vocational training centres, Ranaviru Villages and Universities for persons with special needs under the International Telecommunication Union and Telecommunication Regulatory Commission Sri Lanka project program with the theme information communication technologies for disempowered and marginalized communities. Computer tables and chairs, multimedia projectors, Braille software, FM hearing equipment for hearing impaired children and a photocopy machine, were provided for 69 centers including two universities, 33 schools, 17 vocational training centres and 17 Ranaviru villages.
- ii. Sri Lanka Telecom PLC provided ADSL connections to nine centers and ten other centers received HSPA Internet facilities from Mobitel(Pvt.)Ltd free of charge under this project for two years.
- iii. A new computer and speech training centre with facilities for a FM hearing system and ICT equipment was opened at Wellassa Subagya Special School at Kumbukana in the Monaragala District on 7th March 2010 under the patronage of

Mr. Anusha Palpita, Director-General of Telecommunications Regulatory Commission, Mr. S. S. Sahabandu, President's Counsel, Member of the Telecommunications Regulatory Commission (TRCSL).



Director General TRCSL, Mr. Anusha Palpita declared open the new computer and speech training centre at Wellassa Subagya Special School, Kumbukana



Wellassa Subagya Special School, Kumbukana

- iv. The TRCSL in collaboration with Ranaviru Seva Authority set up a new computer centre with facilities for ICT equipment at Paradisewatta Ranaviru Village at Kuruvita in the Ratnapura District on 18th February 2010.

3.2.5. Workshop on NGN regulation and Migration Strategies

Workshop on NGN Regulation and Migration Strategies - SRI LANKA was held from 28-29 October 2010 at the TRCSL Conference Hall. The conference was organized by the ITU and hosted by the Telecommunications Regulatory Commission of Sri Lanka. The welcome address was made by Mr. Anusha Palpita, Director General TRCSL, Mr. Sameer Sharma, Senior Advisor, ITU and Mr. Oscar G. Soto, ITU Consultant and several other speakers representing several international organizations and operators spoke at this event.

Development Trends in NGN, NGN - Network Architecture and Standardization, NGN Migration Strategies, NGN Regulatory Issues, Security Issues of NGN, NGN QoS (Quality of Service), Case Studies and NGN - General Issues were discussed at this important meeting.

3.2.6. South Asian Telecom Regulators' Council (SATRC) Working Group on Network and Strategies

Senior officials representing telecommunication regulatory bodies of eight South Asian countries and Iran, met in Colombo on 15th and 16th July, 2010 to map out a strategy related to strengthening Network and Services in the region. These officials belonged to the 'Working Group (WG) on Network and Services', which was established pursuant to a decision taken at the 11th meeting of South Asian Telecom Regulators' Council (SATRC) held in Colombo,

Sri Lanka from 24 – 26 November 2009. This endeavour represented the implementation of phase-3 of the Action Plan for the duration of 2010-2011. The primary purpose of the meeting was to develop and establish Terms of Reference (TOR) for the work program of the Working Group. These WG meetings were chaired by a Senior Official representing the Telecommunications Regulatory Commission of Sri Lanka (TRCSL). This WG studied and submitted its Recommendations/Reports/Guidelines on the following subjects:

- Ensuring quality mobile handsets to South Asian Consumers
- Evolution of NGN and NGA : Interconnection Tariffs in SATRC countries
- Retail Tariffs: Quality of Service (QOS) sensitive pricing for Internet Protocol (IP) based services
- Roaming and International Tariffs for the purpose of discussion/ adoption at the next SATRC meeting.

The officials from Nepal, India, Bhutan and Sri Lanka made presentations covering the aforesaid topics.

3.2.7 The World Telecommunications & Information Society Day (WTISD)

Telecommunications Regulatory Commission of Sri Lanka organized an event to celebrate the World Telecommunication and Information Society Day on 17th May 2010. 17th of May marks the anniversary of the signing of the first International Telegraph Convention and the creation

of the International Telecommunication Union (ITU). World Telecommunication Day has been celebrated annually on 17 May since 1969, marking the founding of ITU and the signing of the first International Telegraph Convention in 1865. In November 2005, the World Summit on the Information Society (WSIS) called upon the UN General Assembly to declare 17 May as World Information Society Day to focus on the importance of ICT and the wide range of issues related to the Information Society raised by WSIS. The General Assembly adopted a resolution in March 2006 stipulating that World Information Society Day shall be celebrated every year on 17 May. In November 2006, the ITU Plenipotentiary Conference in Antalya, Turkey, decided to celebrate both events on 17 May as World Telecommunication and Information Society Day. The updated Resolution invited Member States and Sector Members to celebrate the day annually by organizing appropriate national programmes.

In 2010, the theme for the telecommunication and information society day was " Better Cities, Better Life with ICTs". The purpose of the event organized by TRCSL to commemorate WTISD 2010 was to raise awareness of the possibilities that the use of the Internet and other information and communication technologies (ICT) can bring to societies and economies, as well as of ways to bridge the digital divide.

3.2.8 APT Year Book

The APT Year Book gives the development of telecommunications and ICT in the Asia Pacific region. It gives the current status of telecom and ICT in the countries and territories of the Telecommunity. The policy and International Relations Division compiled the chapter of Sri Lanka for 2009.

3.2.9 Telecom Regulatory Survey

The Telecommunication Regulatory Survey of the International Telecommunication Union (ITU) was completed on line by obtaining the required information from the industry.

3.2.10 Coordination of visits of foreign delegates.

Mr Malcolm Johnston, Director Standardization Bureau of the ITU, Mr. Ekwow Spio Garbrah CEO of CTO, Mr. Sameer Sharma, Senior Advisor of ITU and Mr. Oscar G. Soto, Consultant ITU amongst others visited TRC and their visits were coordinated by the Policy and International relations Division with the support of other Divisions of TRCSL.

Chapter 4

Economic Affairs Division

The Economic Affairs Division consists of two sub divisions namely Competition Sub Division and Compliance Sub Division and the functions and activities undertaken by these two sub divisions in 2010 are given below.

4.1 Functions of Competition Sub-Division

- Conduct tariff Analysis including cost studies to formulate cost-based tariff regulation and examine proposals for new tariff for approval.
- Monitor trends through the analysis of financial and operational performance of licensed operators.
- Perform economic analysis of sector.
- Analyse commercial terms of interconnection and inter-operator interconnection arrangements.
- Ensure timely licence and Cess fee collection.
- Recommend policies and programmes for ICT development in rural areas to the Commission

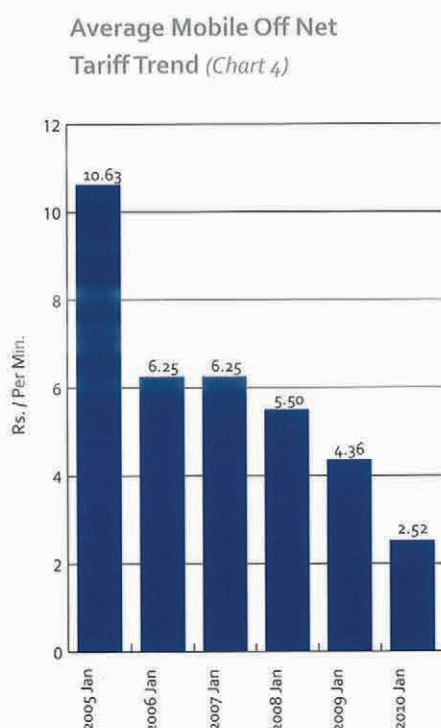
- Make proposals for the use of economic incentives to expedite rural roll-out.
- Collect and analyse statistical information.
- Monitor sectoral performance through sectoral analysis.
- Monitor collection of Government taxes from the industry.

4.2 Performance

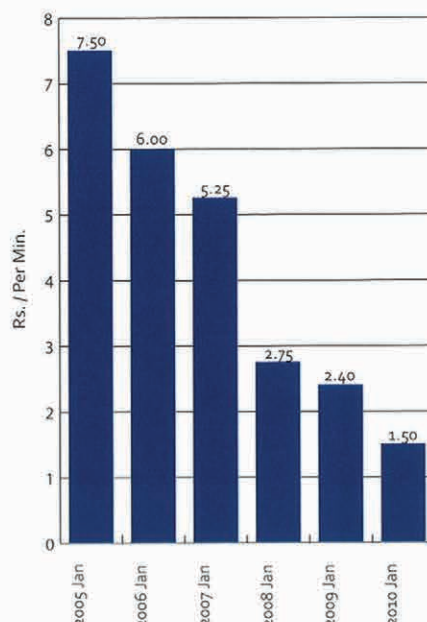
4.2.1 Tariff analysis

Tariff analysis showed that competitive tariff packages had unsettled the market eroding into the profits of the operators and threatened the stability of the telecommunication sector.

The Trends in Average Mobile Off Net Tariff and Average Mobile On Net Tariff during the period 2005 – 2010 are shown in charts 4 and 5 respectively



Average Mobile On Net Tariff Trend (Chart 5)



With a view to preventing the deterioration of the industry through further price reductions thereby making the competition unhealthy, TRCSL in mid 2009 introduced floor rates for mobile operators and interconnection rates for the mobile and fixed operators. The introduction of interconnection rates enabled telecom companies to recover the cost of permitting other operators to use their networks/infrastructure.

TRCSL also imposed a floor price for all voice calls and text messages. This floor rate on calls and text messages was imposed to prevent destructive tariff wars between telecom operators and enable them to earn an adequate rate of return on invested capital, thus providing free cash flow for investment in new technology.

Initially floor rate was introduced for the mobile industry in 2009. It was extended

to fixed wireline, fixed wireless/CDMA in March 2010. The floor rates were revised in mid 2010. In addition, floor rates were introduced for short message services (SMS) with this revision.

TRCSL did not approve any tariff proposals which were below the floor rates. In 2009 the Commission determined commercial rates for interconnection services after conducting a cost study. Accordingly it was determined Rs.0.50 per terminating voice minute and Rs. 0.15 per short message Services (SMS). These rates were continued in the year 2010 as well. In the year 2010 the TRCSL approved 108 tariff plans. The average tariff for on net mobile call was Rs.2.40 per minute in 2009 and it dropped to Rs.1.50 per minute in 2010. The average tariff for off net mobile call was Rs.4.36 per minute in 2009 and it was reduced to Rs 2.52 in 2010. With the introduction of floor prices and interconnection rates TRCSL could minimise the price war between the competitors to a great extent and stabilize the industry.

4.2.2 Monitoring trends through the analysis of operational and financial performance of licensed operators.

4.2.2.1 Operational Performance

By the end of year 2010, the total number of subscribers (both fixed and mobile) was 20.8 million and it was an increase of 17.5 % against year 2009. The number of fixed telephone subscribers in 2009 and 2010 was 3,435,958 and 3,578,463 respectively indicating a slight increase of 4.1%. In contrast, the number of mobile

subscribers showed an increase of 21.1% during the same period from 14,264,442 in 2009 to 17,267, 407 in 2010.

4.2.2.2 Financial Performance

Investment

As per the information provided by the operators, there has been a decrease in investment for the industry in the year 2010. The total investment in 2009 was Rs.44.9 billion and it decreased to Rs.24.3 billion in 2010. Table 1 indicates the investment by fixed and mobile operators in the years 2009 and 2010 respectively. In 2009, three fourth of the total investment was for the mobile sector and it dropped to 60% in 2010.

Investment by Telecom Operators,
2009 – 2010 (Table 1)

Year	Investment (Rs. Mn)		Total (Rs.Mn)
	Fixed operators	Mobile operators	
2009	11,207	33,678	44,885
2010	9,807	14,469	24,276

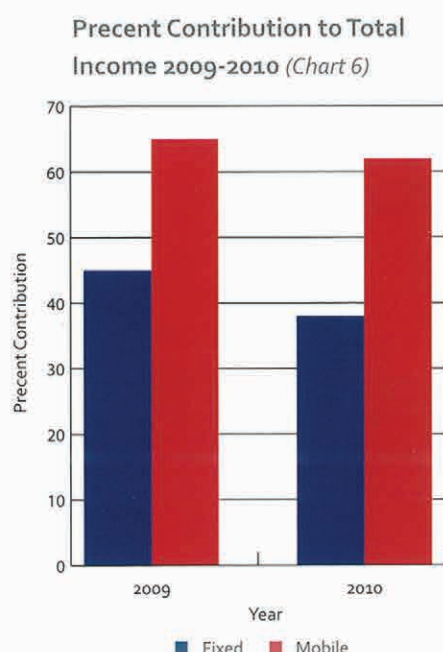
Revenue

The revenue of the fixed operators and the mobile operators for the years 2009 and 2010 is given in table 2.

Revenue of Fixed and Mobile Operators,
2009- 2010 (Table 2)

Year	Revenue (Rs. Mn)		Total (Rs.Mn)
	Fixed operators	Mobile operators	
2009	47,898	58,043	105,941
2010	45,299	72,158	117,457

The revenue of the fixed telephone industry has decreased by 5.4 % from 2009 to 2010 whereas that from the mobile telephone industry has increased by 24.3% during the same period. The overall revenue from both sectors has increased by 10.9% during this period. In 2009 the contribution to the total income from the fixed telephony and mobile telephony was 45% and 55% respectively. The corresponding figures for 2010 were 39% and 61% respectively (Chart 6)



Net Profit/ Loss in the Industry

The net loss of the fixed telephone operators in 2009 was Rs. 1,847 million and it improved to a net profit of Rs. 181 million in 2010. In the case of mobile telephony, the operators have encountered losses in 2009 as well as in 2010. The corresponding figures are Rs. 17,369 million and Rs. 3,652 million respectively indicating that the loss in the mobile industry has decreased by 79% from 2009 to 2010. The total loss in both sectors was Rs. 15.5 billion in 2009 and it

decreased to Rs. 3.5 billion in 2010 (Table 3).

Net Profit/ Loss in the Fixed and Mobile Industry, 2009-2010 (Table 3)

Year	Net Profit/ Loss (Rs. Mn)		Total (Rs. Mn)
	Fixed operators	Mobile operators	
2009	-1,847	-17,369	-19,216
2010	181	-3,652	-3,471

4.3 Functions of Compliance Sub-Division

- Monitor compliance of statutes and licenses on the part of operators.
- Monitor and enforce TRC's directives to operators if necessary through public hearings, billing orders, section orders and interconnection determination.
- Monitor quality of service and propose economic incentives.
- Manage consumer relations and consumer protection.
- Perform surveillance of quality of service (non-technical) obligations.

4.3.1 Performance

4.3.1.1 Dealing with Compliance Issues

The vigilance of the Compliance Sub Division regarding the activities of the operators has helped to minimize the violation/deviation of statutes and licence conditions by the operators. During the year 2010 the Compliance Sub Division dealt with compliance issues related to tariff, subscriber levy, cess fee and vendor licenses. Table 4 indicates information relevant to these issues.

Compliance issues handled in 2010 (Table 4)

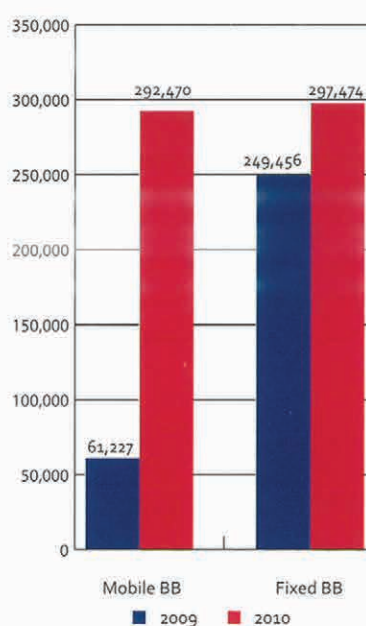
Issue	Violation/Deviation	Action Taken
Compliance issues on Tariff	Section 5(K) of the Telecommunications Act, Floor Rate Determination and License Conditions of the relevant operators.	Action taken on 27 cases out of 37 cases
Mobile Subscriber Levy & Fixed Phone Subscriber Levy	Found shortages of the receiving amount from all operators. (Telecom Tax)	Informed relevant Division of TRC for further action
Cess Fee by an operator	Section 22g of the Telecommunications Act	Action taken to recover cess fee
Availability of unauthorized telecommunications equipment in the market. Selling of telecommunication equipment without a vendor licence.	Section 21 of the Telecommunications ACT	Action taken to prevent selling of unauthorized telecommunication equipment

4.3.1.2 Monitoring Quality of service (QOS) of broadband internet services and issuance of Guidelines

There were 61,227 mobile broadband subscribers in 2009 and it increased to 292,470 indicating a huge increase of 378% during this period. In the case of fixed broadband subscribers the change was only 19%. (Chart 7)

The Telecommunications Regulatory Commission introduced a benchmarking process for ADSL, WiMAX and HSPA to monitor the quality of service associated with the provision of broadband internet services by Operators to the public. A committee was appointed for this

Change in Broadband Subscribers 2009-2010 (Chart 7)



purpose and established a Monitoring Unit. This Unit was equipped with apparatus to observe a wide variety of broadband services of the operators of ADSL, WiMAX and HSPA.

The main purpose of this Unit was to keep under surveillance the quality of broadband services encountered by subscribers in the country. To get an accurate picture about the overall broadband QOS, appropriate tests were carried out in various parts of the Island where broadband is available. The local and international segments were monitored separately to gauge the available speeds. The broadband service providers too established mechanisms in their networks to enable these tests to be conducted accurately, pursuant to the request made by the TRCSL. This mechanism allowed TRCSL to keep under observation an Operator's access network and to obtain certain data that are useful in monitoring quality of service.

With the intention of raising awareness among broadband subscribers, the Telecommunications Regulatory Commission issued a set of guidelines for broadband service providers in August 2010. In this context TRCSL directed all broadband operators in the country to make available the broadband Internet related information to the public in a dedicated web portal contained in the operator's main website.

4.3.1.3 Dealing with Consumer Complaints

In terms of Section 9 (see 2.6.5) TRCSL is mandated to inquire into written complaints received from a subscriber or a member of the public. Accordingly, TRCSL has implemented a programme as part of its overall strategy to protect and ensure safety of consumers with regard to matters related to telecommunications. A Unit named Consumer Relations Unit has been established under the Economic Affairs Division for this purpose. This Unit receives different types of complaints such as billing disputes, faults of new connections, nuisance calls, loss of mobile phones, issues related to internet connections, and pay TV services. When dealing with consumer complaints the Consumer Relations Unit communicates with the operators and also with the police depending on the nature of the complaint. The action taken by TRCSL is conveyed to the complainants for their information. In the year 2010 more than 10,000 complaints were received by the Unit and most of the complaints (nearly 5600) were in respect of loss of mobile phones. With regard to complaints on loss of mobile phones, the Unit was successful in identifying the location of nearly 1200 phones.

Chapter 5

Spectrum Management Division

TRCSL has the sole authority of managing and controlling the use of the radio frequency spectrum and matters relating to the satellite orbit as set out in Section 10 of Telecommunications Act. Radio frequency spectrum is a finite natural resource. Because of the attributes of a limited resource, the spectrum has significant economic value and must be managed to maximize its overall benefit.

The importance of spectrum is increasing rapidly as an input resource to the economy, since more and more spectrum is used to provide communications services directly to industry and consumers. Current uses of the spectrum continue to grow while at the same time new services are

continually being developed. The challenge before Spectrum Management Division is to facilitate change in the use of spectrum in an environment where the rate of technology change is increasing. This ever increasing demand has to be catered while managing already assigned spectrum to existing users which are large in numbers. Meeting this challenge requires careful planning and the need to make sometimes difficult choices about spectrum use.

Sri Lanka is a signatory to International Telecommunication Union (ITU) and as a result has obligations to comply with the Radio Regulations.

As per Section 5 of the Telecommunications Act, TRCSL has powers to assign frequencies, withdraw and suspend any unwanted frequency emissions in order to ensure the conservation and proper utilization of the radio frequency spectrum by all parties who need to use radio frequencies. The major functions that are being carried out in achieving this objective are as follows.

5.1 Functions

- Planning of radio frequency spectrum in accordance with Radio Regulations and associated recommendations of International Telecommunication Union (ITU)
- Making available of spectrum for the introduction of new technologies
- Identifying and assigning radio frequencies from suitable bands
- Developing necessary guidelines, rules and fee structures related to radio frequency spectrum

- Invoicing and licensing for the usage of frequencies and associated equipment
- Managing a database of all users containing frequency assignments, transmitter locations, technical data of transmitters, invoicing and licensing data
- Issuance of type approval documents for certain radio equipment
- Recommendation and authorization of equipment clearances to other govt. organizations such as Board of Investment (BOI), Import Control Dept., Customs Dept.
- Monitoring of radio frequency spectrum
- Investigation of complaints related radio frequency interferences and mitigation of radio frequency interferences
- Providing necessary information and guidance for research activities of students in academic institutions
- Conducting awareness programmes on radio frequency and equipment usage
- Liaising with international organizations such as ITU, APT, IMO, COSPASA and regulatory organizations of other countries in matters related to radio frequency spectrum

5.2 Performance

As per Section 22 of Telecommunications Act (see 2.6.1.2) any person who uses a radio frequency emitting apparatus should have a valid licence issued by the Commission. The licence is issued on the payment of fee as specified by rules made in that behalf unless specified otherwise. The conditions of the licence are specified

and issued together with the licence. Conditions may differ from service to service. In the event of the breach of any such condition, TRCSL has the power to seal the equipment and to revoke the licence.

Radio frequency spectrum is allocated to various bands according to the type of service. The nature of service differs from the one to other depending on the characteristics of radio waves, technical parameters of equipment and applications. Hence the work of the Division is divided into several service categories.

It is required to have a clearance from TRCSL for importing any radio frequency apparatus. Spectrum Management Division makes sure that equipment complies with necessary standards and

has a frequency approved by TRCSL for operating the equipment, prior to issue such a clearance letter. This action minimizes the illegal use of frequencies and radio interferences occurring to licensed spectrum users.

However Spectrum Management Division receives complaints from users whenever they experience interference to their transmissions. The arrangements are made to identify the source of interference and take relevant mitigating actions.

The statistics on the number of frequencies and licences issued during the year 2010, as well as interference complaints and unauthorized users identified by Spectrum Management Division are shown below.

5.2.1 Assignment of frequencies

Total number of frequencies assigned – 2010 (Table 5)

Category of Service	No. of Frequencies
Fixed service	4724
Broadcasting service	66
Cellular Mobile Service	2 slots
Data & Radio Telemetry	28
Aeronautical & Maritime Service	
i. Maritime Mobile Service	8
ii. Aeronautical Mobile Service	4
Private Mobile Radio Service	13

5.2.2 Issuance of frequency licences

Total number of licences issued for spectrum users – 2010 (Table 6)

Category of Service	No. of Licences
Fixed service	38
Broadcasting service (Tv & Radio)	25
Cellular Mobile Service	5
Trunking / Paging/ Citizen Band	8
Data & Radio Telemetry	24
Aeronautical & Maritime Service	
i. Maritime Mobile Service	34
ii. Aeronautical Mobile Service	65
iii. Maritime mobile	78
iv. Aeronautical mobile	5
Private Mobile Radio Service	185

5.2.3 Receipt of complaints from spectrum users and carrying out investigations with regard to interferences

Complaints received and Investigations undertaken - 2010 (Table 7)

Service	No. of complaints received	No. of Investigations undertaken
TV and Broadcasting	13	8
Other Services	53	53

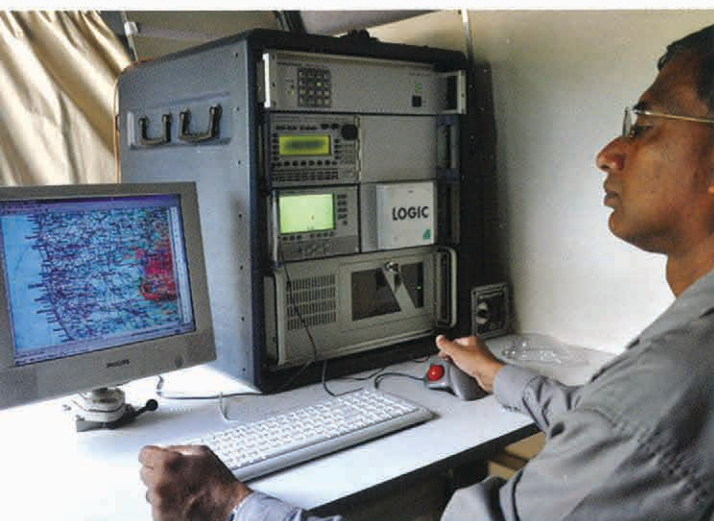
5.2.4. Identification of illegal users of frequency spectrum

No. of illegal users identified and preventive action taken - 2010 (Table 8)

Category	No. of illegal users identified	Action Taken
Broadcasting service (Tv & Radio)	5	Took steps to prevent the illegal use of frequency spectrum
Other Services	3	

Special equipment are used for detecting illegal users of frequency spectrum.

These equipment are installed in a special vehicle designed for this purpose.



Frequency Monitoring Equipment



Mobile Frequency Monitoring Vehicle

5.2.5 Issuance of Clearance reports for the importation of wireless telecommunication quipment

Total number of clearance reports issued – 2010 (Table 9)

Category of Service	No. of clearance reports
Fixed service	720
Broadcasting service (Tv & Radio)	105
Cellular Mobile Service	
i. Dealer Licence	4058
ii. Mobile operators	927
iii. Trunking / Paging / Citizen Band	7
Aeronautical & Maritime Service	
i. Aircraft Station	6
ii. Ship station	3
iii. Maritime Mobile	85
iv. Aeronautical Mobile	2
v. Aeronautical navigation	1
vi. Miscellaneous	29
Private Mobile Radio Service	
i. PMR	159
ii. CDMA	245
Data service	482
Satellite service	1020

Other Important activities undertaken by the Spectrum Management Division in 2010 are described below.

5.2.6 Implementation of Mobile Equipment Identity (IMEI) number verification system (TRIVES)

As stated earlier (see 2.6.1.4) no person shall by way of trade, manufacture, import, sell, offer for sale, deal in, transfer, hire, lease, demonstrate, maintain and repair any telecommunication apparatus, except under the authority of a licence issued by TRCSL. Hence, the mobile phone importers should obtain Vendor Licence to import and sell mobile phones and further they are required to obtain prior approval from TRCSL for importation.

As noted earlier there has been an exponential growth in the mobile telephony sector in the country in the recent past. Along with this growth, mobile handsets with a variety of features at very low cost have started flooding in to the market. Due to the attractive features at very low cost, non-branded handsets have captured the market rapidly. Most of the non-branded phones were imported without obtaining proper approval from TRCSL and became freely available in the market for sale. Due to lack of knowledge of the handset approval process carried out by Telecommunications Regulatory Commission of Sri Lanka the consumers purchased these handsets without knowing the consequences of using them.

The Spectrum Division of TRCSL commenced collecting the International Mobile Equipment Identity (IMEI) data of all the mobile phone imports since 1st March 2010 and the data were entered in to a data base management system (Chart 8).

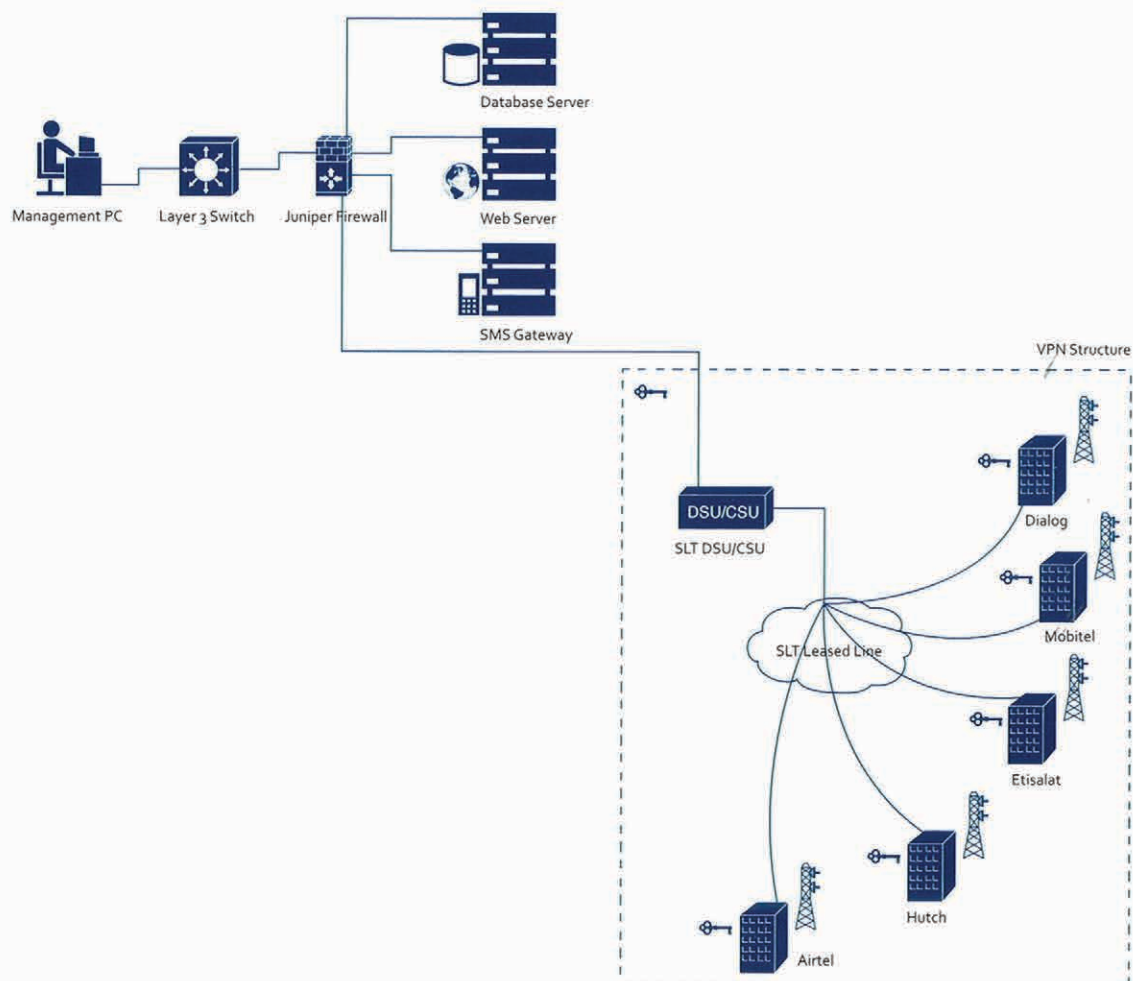
This data base management system named as TRCSL Imei Verification System (TRIVES) was installed and maintained by University of Colombo School of Computing (UCSC) and is in operation now. Fifteen digit International Mobile Equipment Identity (IMEI) number is a unique number given to every single mobile handset and is typically found inside when the battery is removed. It can also be displayed on the screen by entering *#06# in to the keypad of the handset. Type Allocation Code (TAC) is the first eight digits of the IMEI number and it indicates the Make, Model and the Manufacturer of the particular device.

At the time of obtaining approval letters to clear the mobile phones from Sri Lanka Customs, the importers are required to submit the IMEI numbers of the imported mobile phones. TRCSL issues a reference number for each and every import and this reference number should be pasted on the mobile phone box for verification.

TRCSL established a mechanism whereby potential purchasers of new mobile phones would be able to find out without incurring any cost whether the mobile phone intended to be purchased is a TRCSL approved phone. TRCSL took measures to keep the public informed about this mechanism via printed and electronic media since February 2010.

IMEI Verification System

Basic System Diagram - Developed under UCSC (Chart 8)



Due to the importance of this system the Mobile Operators provided their services free of charge and all the SMS channels through their networks at no cost.

Procedure for Verification of authenticity of the phone

Before purchasing a mobile phone, one should check whether the 15 digit IMEI number is denoted together with the TRCSL Reference Number on a sticker in the Box containing the phone.

Example of an IMEI Number and TRCSL Sticker with Reference No.

IMEI:355213036062263



TRCSL APPROVED

Ref. No: DL or ML or TRC / xxx / xxx

To verify whether the mobile phone has been approved by TRCSL, the customer should enter letters IMEI <space> IMEI No. on the phone and send an SMS to 1909.

One of the following two messages will be received by the potential customer via the automated system established at TRCSL.

Registered IMEI, TRC Reference No. DL or ML or TRC /XXX /XXX
Unknown IMEI: Please contact TRCSL –
Tel. 011 – 2676993 / 4

The potential customer must then compare the number received via the first message with the TRCSL Reference No. found on the sticker in the Box. These two numbers should be identical

If these two numbers are not identical or if the potential customer has received the aforesaid second message from TRCSL, then it constitutes a confirmation that the mobile phone in question is not an authentic phone approved by the TRCSL. It is also a forewarning to the potential customer to avoid purchasing that particular Phone.

Future Developments:

Database Management System will be expanded to cater customer requirements to obtain information on Mobile Phones such as Specific Absorption Rate (SAR) value, list of legal Vendors importing mobile phones, technical details of equipment etc.

TRCSL will print and issue the sticker to be pasted on the phone box at the time of authorization of the equipment importation by Vendors.

It is expected to set up a laboratory for testing of mobile phones before granting type approval.

5.2.7 406 MHz Emergency Beacon Registration

In August 2008 Cosmicheskaya Sistema Poiska Avariynyh Sudov - Search And Rescue Satellite-Aided Tracking (COSPAS-SARSAT) Secretariat recognized TRCSL as the national point of contact of Sri Lanka for registration of 406 MHz emergency beacons. (the foot note below gives a brief description of COSPAS-SARSAT). The need to establish national focal points of contact arose after COSPAS-SARSAT Council decision to detect only 406 MHz beacons effective from 1st of February 2009 and determinate satellite processing of 121.5 MHz beacons due to recognition of limitations of 121.5 beacons. With this decision it became necessary to register 406 MHz beacons at International Beacon Registration Database (IBRD) only through the recognized national focal points.

TRCSL published notices to make the public aware of the new beacon registration process and collected information from the relevant parties for the preparation of the national beacon list to be registered at the IBRD. Accordingly 132 beacons with Sri Lankan country code were registered at IBRD in February 2010. The different types of beacons registered beacons are indicated in table 10.

With effect from February 2010, COSPAS-SARSAT has changed the setting of IBRD in order to register all Sri Lankan beacons only by national point of contact and refuse any attempt of individual registration.

Beacons Registered at IBRD (Table 10)

Beacon Type	Number
Emergency Position Indicating Radio Beacon (EPIRB)	80
Emergency Locator Transmitter (ELT)	40
Personal Locating Beacon (PLB)	12

***Note**

The acronym COSPAS stands for the Russian words "Cosmicheskaya Sistema Poiska Avariynyh Sudov", which translates to "Space System for the Search of Vessels in Distress" and SARSAT is an acronym for Search And Rescue Satellite-Aided Tracking. Cospas-Sarsat is an international satellite-based search and rescue (SAR) distress alert detection and information distribution system, established by Canada, France, the United States, and the former Soviet Union in 1979. The system consists of both a ground segment and a space segment. Cospas-Sarsat is based in Montréal, Québec, Canada.

Chapter 6

Network Division

6.1 Functions

- Management of the national numbering plan.
- Study project proposals submitted by individuals/ organizations with regard to telecommunication infrastructure developments and make recommendations and submit reports on the same.
- Administering technical standards for the telecommunications sector in Sri Lanka and conducting all work related to ITU's Standardization Sector (ITU-T and WTSA).
- Participating in Technical Evaluation Committees (TECs) and provide technical inputs related to telecommunications.
- Performing type approval of terminal and network equipment for attachment to the network and making recommendations for customs clearance purposes.
- Planning and administering signaling point codes for operators.
- Processing applications for issue of vendor licenses (see 2.6.1.4)
- Facilitate licence operators in implementing their infrastructure development projects.

6.2 Performance

During 2010, the Network Division contributed to carry out regulatory functions, (issuance of vendor licenses, issuance of clearance reports for importation of equipment, conducting investigations on complaints, development

of policies and guidelines relevant to the telecommunications infra structure development etc.), and development activities such as construction of towers, public awareness programmes, exhibitions etc. Statistics pertaining to activities undertaken by the Network Division in 2010 are given in table 11.

Statistics relevant to activities undertaken by the
Network Division-2010 (Table 11)

Description	Number
Issuance of vendor licenses	487
Construction of telecommunication towers	548
Approval given to construct towers	825
Meetings with Ministry of Defence regarding construction of towers (study sessions and checking possibility of sharing sites)	13
Investigations conducted regarding tower construction in 2011	78
Court cases against tower construction	17
Court cases on tower construction settled in favour of TRCSL	10
New type approvals granted	10
Public awareness programmes	28
Issuance of clearance reports for commercial purposes	3217
Individual clearance reports	88
Applicants who faced the ARO Examination	51
Exhibitions	4
Short codes issued	7

A description of major activities carried out by the Network division is given below:

6.3 Development of Kokavil multifunctional tower and transmission station



Kokavil Tower

Special mention should be made about the Kokavil transmission tower. Kokavil transmission tower has been utilized in the past to serve the radio broadcasting needs of the people in the Northern province. During the humanitarian operations of Sri Lanka's armed forces, Government troops recaptured the Tower and reconstruction of the tower commenced in 2009 under the Uthuru Wasanthaya Programme with funding

and direction of the Telecommunications Regulatory Commission of Sri Lanka and the coordination of the Mass Media and Information Ministry. The Central Engineering Consultancy Bureau (CECB) undertook construction under design and build basis. Most of the construction work of the tower was done in the year 2010 and Rs.222 million was spent for this purpose in the same year. The Kokavil tower, the largest and highest transmission Tower in Sri Lanka, is 174 meters in height and after the completion of this multi functional transmission tower it would be utilized for installing telecommunication, television, radio and other government institutional facilities. It will be of help in providing telecommunication, television, radio, and information and communication facilities to the communities in the Northern Province.

6.4 Development of policy on antenna structure construction and guidelines for the construction and maintenance.



Antenna Structures

This activity commenced in 2008 with the intention of safeguarding the environment and public interests while not unduly restricting the development of telecommunication services. In order to achieve these objectives, the TRCSL appointed a Technical Advisory Committee to address the issues related to antenna structures. The policy guidelines were approved by the Commission in 2010 and approval of the Cabinet of Ministers was sought to implement the policy.

6.5 Awareness campaign on Telecommunication Infrastructure Development

On many occasions, various organizations, organized groups and individuals express their concerns against telecommunication infrastructure development projects due to lack of knowledge about relevant national and international standards



In 2010 the Network Division carried out 10 public awareness programmes regarding telecommunication tower construction. The objective of these programmes was to listen to the concerns of the public and



Awareness Programmes

other concerned parties and educate them regarding the national and international standards related to construction of telecommunication towers with a view to obtain their cooperation for the projects. The Division accompanied experts from relevant fields for these programmes as and when required

6.6 Public awareness campaign to force/encourage legal selling points of telecommunication equipment including mobile phones.

As noted earlier (see 2.6.1.4) only those who possess licences can engage in selling telecommunication equipment. Public awareness campaign to force/encourage legal selling points of telecommunication equipment is an on going programme of the Division and it was continued in 2010 through print and electronic media.

6.7 Control of illegal operation of cable TV services

According to Section 22(A) (1) of the Act no person shall perform cabling work in

any premises except under the authority of a licence issued by the Commission for that purpose. In 2010 the Network Division engaged in the control of illegal cable TV services island wide with the assistance of the police.

6.8 Short codes allocation

Public and private sector institutions make requests for allocation of short codes. When such requests are received, the

Division obtains project proposals from the respective institutions and study the proposal in detail since utmost care should be given in allocating a scarce resource.

After completion of the study the Division make recommendations to the Commission with regard to the particular request. Short codes allocated in 2010 are indicated in table 12.

Short Codes allocated-2010 (Table 12)

Number Prefix (19 XX)	Institution
1901	Ministry of Power and Energy (for complaints)
1905	Ministry of Power and Energy (for complaints) Ministry of Public Administration and Home Affairs
1908	Presidential Secretariat
1910	Ministry of Power and Energy (LECO) (for power supply breakdown)
1933	Police Department (CID Operations Unit)
1970	Department of Pensions
1984	National Dangerous Drugs Control Board

Chapter 7

License Administration Division

7.1 Functions

- Management of activities related to telecommunication system licences and enforcement of licence conditions
- Assessment of applications and investors' business plans from a technical point of view and coordinating relevant economic, legal and consumer aspects.
- Ensuring technical compliance by the licencees with the conditions of the licences
- Maintain and implement the framework and procedures in respect of new applications for providing telecommunication services.
- Coordinate with other Divisions of TRCSL regarding telecommunication activities, policies and regulations.
- Management of issues relating to market development, economic regulation and dispute resolution including (but not limited to) interconnection and access, network and universal service obligations
- Advise other Divisions of TRCSL on the regulatory domain analysis and provide relevant inputs to implement best regulatory practices and review regulatory reports

- Establish and maintain smooth relations with other Divisions to facilitate the sharing of views and experiences on technical, regulatory and policy topics
- Analyse trends in telecommunication / Information and Communication Technology (ICT) regulations and policies in other telecom regulatory authorities and identify regulatory and policy issues requiring attention of the Commission and make appropriate recommendations to the Commission.

7.2 Performance

7.2.1 Issuance of telecommunication system licenses

One main function of the License Administration Division is issuance of system licenses for those who satisfy the necessary requirements. Table 13 indicates the cumulative number of system licences granted under Section 17 of the Act

Cumulative number of licenses granted to operate telecommunication systems as at end of 2010 (Table 13)

Category of Service Licensed under Section 17 of the Act	Number
Fixed Access Telephone Service	4
Cellular Mobile phones	5
Data Communication (facility based)	6
Data Communication (non-facility based) & ISPs	8
Trunk Mobile Radio	2
Leased Circuit Providers	1
Licensed Payphone Service Providers	1
External Gateway Operators	33
Direct-to-Home Satellite Broadcasting Service	2
Cable TV Distribution Network	2
Total	64

7.2.2 Processing and Drafting of Payphone Services License

An operator (Tritel Services Private Limited) applied for the renewal of the operator license granted in 2005 under Section 17 (2) of the Act to operate a telecommunications system to provide public payphone services and prepaid card calling services in Sri Lanka. This application was processed by the Division and it was observed that the operator had fulfilled the requirements set out in the Guidelines and Procedures for issuing, renewal and modification of licenses under the Act, published in Gazette Extraordinary No. 1435/20 dated 10/03/2006. Accordingly, a notice was published to inform the public that the Commission proposes to recommend to His Excellency the President the grant of a license to the operator for a further period of five years with effect from 22.9.2010 and a request was made to submit any representations or objections to the Commission with regard to the proposed grant of license to the operator for a further period of five years to continue to operate its telecommunications system. A draft of the proposed license was also made available to the public on the Commission's official web site, www.trc.gov.lk.

7.2.3 National Backbone Network (NBN) project design and preparation of bidding documents and drafting of NBN license

TRCSL initiated an island wide fibre backbone network project to cater to the broadband needs such as projects

under the e-Sri Lanka initiative of ICTA or the deployment of Next Generation Networks (NGN) in Sri Lanka. Especially, access to reliable high-speed Internet connectivity not only in the urban areas but in the more rural underserved areas of Sri Lanka is becoming increasingly important with the rapid growth in ICT literacy among all sections of the population. The lack of a national backbone network has impacted the mobile operators of Sri Lanka who have to rely on point-to-point microwave links, thus increasing the level of required investments considerably. The TRCSL, as regulator of telecommunications services in Sri Lanka, has the responsibility to promote and ensure nation-wide penetration and equitable distribution of communication services. One of its specific emphasis is making ICT services available in rural underserved areas to help education, health and poverty alleviation. The main goal of the NBN project is to provide broadband connectivity in all electorates of all 25 districts of Sri Lanka. The License Administration Division designed this project, prepared bidding documents and drafted the NBN license during the period under review.

7.2.4 Evaluation of National Next Generation Network (NGN) proposals and providing leadership for the formulation of NGN policy and regulatory framework.

NGN technology makes it possible to replace all the legacy core networks run by an operator with a single scalable next-generation core network (core NGN) capable of supporting all types of

services. With the implementation of a core NGN, the operator will be able to significantly reduce its operational expenditure (opex) as a single operational team will be able to operate and maintain the entire network. Also, since the NGN uses a single technology – typically based on Internet Protocol (IP) – all equipment in the network will be of the same type, leading to larger economies of scale and therefore a reduction in the operator's capital expenditure (capex).

TRCSL received a grant from the Institutional Development Fund (IDF) to develop its knowledge base and implementation capacity, enabling it to design and implement the second-generation of regulatory reforms in the Information and Communication Technology (ICT) sector. Accordingly, TRCSL initiated action to establish a policy and regulatory framework for Next Generation Networks. For this purpose the services of a consultant was obtained by following tender procedure.

The overall objective of the consultancy was to establish a Policy and Regulatory framework with the view to facilitate efficient investments in NGN and other new comparable technologies and maintain effective competition among the infrastructure and service providers while safeguarding consumers interest. Specially, the consultant was required to

1. Develop a NGN Policy and Regulatory Framework for Sri Lanka, based on international best practices and experiences, but within the context of Sri Lanka;
2. Prepare documents, including a consultation paper, draft and final recommendations, and final report;
3. Utilize an extensive consultation process with all stakeholders to inform the development of these documents;
4. Make presentations and other related supporting documentation to assist the TRCSL towards the goal of designing the NGN policy and regulatory framework

The consultant was also required consider the issues relating to both the Internet Protocol (IP) based core networks and their interconnection with NGNs and the issues relating to the IP based Next Generation Access Networks (NGANs) connecting end users to the NGNs.

The consultation document was finalized and a consultation paper on "Policy and regulatory framework for next-generation networks (NGNs)" was issued in September 2010 to all key telecoms stakeholders in Sri Lanka. The objectives of the consultation were four-fold:

- provide a general introduction to NGNs and the services that can be offered using these networks
- explain the potential benefits of the introduction of NGNs and corresponding services in Sri Lanka
- provide some insight into the main technical, economic and regulatory issues that may need to be addressed in order to accommodate the migration to, and adoption of, NGN,

while at the same time protecting the interest of Sri Lankan customers

- obtain the views and the comments of the stakeholders with a view to formulate the NGN policy and regulatory framework.

TRCSL received responses from the followings stakeholders:

- Dialog
- Emirates Telecommunications Corporation (Etisalat)
- Huawei Technologies
- Hutch 3G
- Mobitel
- Sri Lanka Telecom (SLT)
- Tritel

After the consultation the Division commenced drafting the regulatory framework.

7.2.5 Processing and preparation of specifications for the bidding document for mobile number portability.

The Telecommunications Regulatory Commission of Sri Lanka (TRCSL), obtained financial assistance from the Institutional Development Fund (IDF) of the World Bank to develop its knowledge base and implementation capacity, enabling it to design and implement Mobile Number Portability (MNP). MNP allows the subscribers to retain their existing mobile numbers when they move from one service provider to another. This facility is considered to increase the competition among the mobile service providers thereby improving their efficiencies with the ultimate goal of providing a cost effective, efficient

service while improving the quality of service provided to the consumers.

TRCSL took action to get the services of a consulting firm to draft a consultation paper (or papers) to obtain the views of all the stakeholders on the deployment of Mobile Number Portability (MNP) services in Sri Lanka and develop a comprehensive report on the methodology of obtaining the services of an MNP service provider, prepare the necessary Guidelines and Regulatory framework for implementing Mobile Number Portability (MNP) and provide recommendations and other related documents for the procurement of the needed system for the implementation of MNP in the most cost effective way. After completing the selection process, TRCSL issued letter of intent to the selected bidder

7.2.6 Promoted the candidature of Sri Lanka for a seat in the International Telecommunication Union (ITU) Council and carried out coordination work with ITU 180 member countries.

The ITU Council consist of 48 members and obtaining a seat in the Council is advantageous from a national perspective. Therefore the TRCSL in 2010 maintained coordination with the member countries numbering 180 with the expectation of obtaining candidature of the Council.

7. 2.7 The Division handled day to day issues arising from the operator licenses (system licences) and provided technical and regulatory inputs to other Divisions

Chapter 8

Administration and Human Resources Division

8.1 Functions

- Maintaining personal files for all staff including confirmation, promotions, leave records, attendance and disciplinary inquiries.
- Recruitment of new staff.
- Preparing personnel plan for the Commission along with job descriptions for each position, in consultation with respective senior managers.
- Preparing human resources development budget with senior functional heads.
- Preparing annual staff training programme.
- Coordinating training activities for both local and foreign personnel and making necessary travel, registration and other arrangements for trainees.
- Coordination of welfare activities to provide welfare services to the staff, handling grievances and counseling to provide financial and non-financial incentive packages.
- Administering the medical insurance scheme for employees.

- Ensure occupational health and safety requirements are met.
- Communication with Department of Public Enterprises, Department of Management Service, and Salaries and Cadre Committee
- Coordination of activities related to security service, cleaning service, building maintenance and repair and purchase of machinery and equipment
- Ensuring efficient supply of electricity, water and telephone services
- Maintenance of vehicle fleet
- Coordination of all activities when participating in the annual Deyata Kirula Exhibition
- Provide logistic support to carry out activities of other Divisions of TRCSL
- Approval of payments
- Identification of lapses and introduction of suitable procedures

8.2 Performance

8.2.1 Establishment Work

The permanent cadre of TRCSL consisted of forty nine (49) categories of employees

and there were one hundred and eighty seven (187) permanent employees, five (05) contract employees and seventy two (72) vacant posts in the year 2010. The Administration Division carried out the establishments work of the employees such as maintenance of personal files, recruitment, confirmation, promotions, leave records, attendance, disciplinary inquires etc. The Division communicated with the Department of Public Enterprises, Department of Management Services and Salaries and Cadre Committee with regard to matters such as permission to purchase vehicles, approval of cadre, preparation of recruitment and promotion procedures etc.

8.2.2 Training

The TRCSL provided local as well as overseas training opportunities for the staff for enhancing their knowledge, developing skills and changing attitudes. Information relating to the training Programmes/Fellowships/Seminars in 2010 are given in table 14

Participation of TRC staff in Training Programmes/
Fellowships/Seminars-2010 (Table 14)

Overseas Programmes

Subject/ Scope of Training/Fellowship/Seminar	Country	Period	
		From (m/d/y)	To (m/d/y)
Preparatory Meeting for World Telecommunications Development Conference 2010	Thailand	3/16/2010	3/19/2010
ITU Study Group 17	Switzerland	4/7/2010	4/16/2010
Executive Course on "Connectivity & Convergence : Alternative Regulatory Strategies"	South Africa	4/12/2010	4/16/2010

2010 Session of the Council	Switzerland	4/13/2010	4/22/2010
16th Steering Committee of SAFIR	India	4/26/2010	4/30/2010
ITU-R Working Party 5C-	Switzerland	5/10/2010	5/20/2010
World Telecommunications Development Conference	India	5/24/2010	6/4/2010
Workshop on efficient use of the spectrum/orbit resources	Singapore	6/16/2010	6/17/2010
Working Party 1A & 4C	Switzerland	6/21/2010	7/6/2010
Working Party 1B	Switzerland	6/21/2010	6/28/2010
3rd APT Preparatory Meeting for ITU Plenipotentiary Conference 2010	Australia	6/22/2010	6/25/2010
APT Standardization Programme Forum	Thailand	7/5/2010	7/9/2010
1st Meeting of the SATRC Working Group on Spectrum	Iran	7/7/2010	7/8/2010
APT Workshop on Telecommunications Trade Rules/APT Policy & Regulatory Forum & Business Dialogue	Indonesia	7/12/2010	7/16/2010
Annual Spectrum Management Conference	USA	7/19/2010	7/23/2010
Workshop on Accessibility to ICTs World Expo- 2010	China	7/21/2010	7/24/2010
APT Workshop on Disaster Management - Emergency Communications & Warning system	Australia	7/21/2010	7/23/2010
Executive Committee Meeting of CTO	UK	7/22/2010	7/23/2010
IP3 Training on Regulatory Impact Analysis	USA	8/9/2010	8/20/2010
SATRC Workshop on Policy & Regulations	India	8/9/2010	8/10/2010
Visit China on Construction of proposed TV Tower in Colombo	China	8/11/2010	8/17/2010
Workshop on Developing HR Management Skills for Telecom Organizations	Thailand	8/17/2010	8/19/2010

SATRC Workshop on "Spectrum Management"	Nepal	8/19/2010	8/20/2010
4th APT Preparatory Meeting for ITU Plenipotentiary Conference 2010	Thailand	8/23/2010	8/24/2010
Broadband Access Network/ Optical Access and Wimax	Japan	9/7/2010	9/17/2010
9th Meeting of the APT Wireless Forum	Korea	9/13/2010	9/16/2010
Meeting of Working Party 1C- Spectrum Monitoring	Netherlands	9/13/2010	9/16/2010
International Visitor Leadership Programme on "Accountability in Government & Business"	USA	9/20/2010	10/9/2010
Training on Computer Network & Management	China	9/20/2010	9/28/2010
APT Meeting on e-Government/ e-Applications	Thailand	9/28/2010	9/30/2010
ITU Plenipotentiary Conference 2010	Mexico	10/4/2010	10/22/2010
Training on "International Roaming & International Traffic Termination"	Thailand	10/5/2010	10/8/2010
Next Generation Network & Its Standardization	Japan	10/6/2010	10/13/2010
Training on "NGN Migration Strategy"	Iran	10/11/2010	10/14/2010
ITU Plenipotentiary Conference 2010	Mexico	10/13/2010	10/22/2010
Training on Cognitive Radio Technology	Thailand	10/18/2010	10/22/2010
Training on Case Study on Government Services & Solutions with ICT for Resolving social issues in rural area	Japan	10/19/2010	10/29/2010
Training on Satellite Communications	India	10/25/2010	10/29/2010
Working Party 5B & Study Group 5	Switzerland	11/8/2010	11/23/2010
Meeting of Working Party 5C & Study Group 5	Switzerland	11/9/2010	11/23/2010
Radio Station Administration & Radio equipment certification	Japan	11/9/2010	11/17/2010

Meeting of Study Group2	Switzerland	11/9/2010	11/18/2010
Training on 3G Network cost Modeling for Asia Pacific	Thailand	11/15/2010	11/19/2010
Seminar on Broadband & USO	Thailand	11/16/2010	11/18/2010
APT Cyber Security Forum	Australia	11/16/2010	11/18/2010
Spectrum Management & Policy	Korea	11/23/2010	11/29/2010
Meeting of Study Group 5	Switzerland	11/23/2010	12/1/2010
Actions for next generation mobile communications system	Japan	11/30/2010	12/8/2010
Forum on Human Capacity Development Building capabilities for a Broadband Economy	Korea	11/30/2010	12/2/2010
ACMA/ITU International Training Programme	Australia	12/6/2010	12/10/2010
4th APT Conference Preparatory Group Meeting for WRC2010	Hong Kong	12/13/2010	12/18/2010
Training on Rural Communications	India	12/13/2010	12/17/2010

Local Training Programmes

Programme	Duration & Venue	Fee
Workshop on Transport Management	26/02/2010 at ICTAD	Rs. 2,500.00
International Corporate Law Conference	18-19 March 2010 at Colombo Hilton	Rs. 11,950.00
Training on Overtime and Travelling	18 August 2010 at InGAF	Rs. 2,500.00
2 CMA Global Management Accounting Summit on CMA for Sustainable Business	29,30 June & 01 July 2010 at Cinnamon Lake Side Hotel	Rs. 12,000.00
SLITAD 6th National Conference	21 May 2010 at Cinnamon Lake Side Hotel	Rs. 4,500.00
Result based project Management	05 – 06 August 2010 at National Institute of Labour Studies	Rs. 3,720.00

PRINCE 2 - Project Management Methodology	30,31 July & 01 August 2010 at Institute of Professional & Skills Development	Rs. 34,500.00+ Exam Fee
Knowledge Sharing Seminar and Workshop	21 July 2010 at Institute of Industrial Technology	Rs. 4,500.00
Diploma in Library & Information Science	2010/2011 at Library Association	Rs. 12,000.00
Master of Science in Management	2010/2011 at University of Jayawardenapura	Rs. 187,500.00
Postgraduate Diploma in Information Management	2010/2011 at SLIIT	Rs. 116,437.50
28 National Information Technology Conference	11 August 2011 at Hotel Galadari	Rs. 8,500.00+ VAT
Seminar on "Intercoms 2010 – new revised rules"	24 November 2010 at Galle Face Hotel	Rs. 8,075.20
31 National Conference	28 -30 October 2010 at Institute of Chartered Accountants of SL	Rs. 14,000.00
Bachelor Degree in Management	2010/2011 at Open University	Rs. 75,000.00
Master of Business Administration	2011/2012 at PIM	Rs. 262,500.00
Cyber Security Summit	23 & 27 November 2010 at Cinnamon Lake Side	Rs. 27,000.00
Budget Seminar	24 November 2010 at Waters Edge Hotel	Rs. 2,000.00

8.2.3 Coordination of Activities related to supply of Services

The Administrative Division coordinated all the activities in supplying different types of services such as security service, cleaning service, consultancy service etc. These activities included preparation of bidding documents, publication of notices, appointment of Technical Evaluation Committees (TECs), appointment of Procurement Committees (PCs), preparation of

reports, submission of reports for obtaining required approvals, intimation of the decisions to selected parties, preparation of service agreements in collaboration with the Legal Division as and when required and supervision of the work of the service providers and taking corrective measures when deviations from the service agreements were observed. The above mentioned procurement procedures were followed in maintenance and repair of buildings,

purchase of machinery and equipment and maintenance of the same.

The Administration Division ensured efficient supply of electricity, water and telephone services by contacting the relevant organizations immediately when break down of these services occurred during office hours as well as outside office hours.

The Division also ensured timely supply of stationery, office equipment, machinery etc. to all the Divisions/Units of TRCSL according to their requirements in order to carry out their duties without any interruption.

The main objective of the above activities was to supply the required services and materials in time for smooth functioning of the organization in a transparent, cost effective and fair manner

8.2.4 Maintenance of vehicle fleet

The vehicle fleet of TRCSL consisted of nineteen cars, three double cabs, three jeeps, five vans, one bus, four lorries and one three wheeler. The bus was allocated for inspection visits, transporting officials for exhibitions, staff welfare activities etc. Some vehicles of the fleet were allocated to officers who had the entitlement for an assigned vehicle and the other vehicles were used for official work such as inspection visits, participation in meetings/workshops/seminars, organizing exhibitions, collection of mail, hand delivery of official letters etc. An amount of Rs. 9.4 million was spent in 2010 for the repairs and replacement of tires and batteries of the vehicle fleet.

8.2.5 Coordination of activities of the Deyata Kirula Exhibition

The Deyata Kirula Exhibition is an annual programme of the Government and state sector as well as private sector institutions participate at the exhibition. In 2010 the exhibition was held at Pallekele in the district of Kandy and the Administrative Division took the lead in organizing the stall of the TRCSL. The other Divisions/Units of TRCSL extended their support to the Administrative Division to organize the stall. The Administrative Division coordinated with the organizing committee of the exhibition and obtained a suitable area in the exhibition premises for the TRCSL stall. Arrangements were made for transport of officers and exhibits to the stall. Arrangements were also made to provide lodging facilities to the staff who had to stay for the work of the exhibition stall. The stall exhibited latest developments in the telecommunication field and several thousands including school students visited the stall during the exhibition period.

8.2.6 Welfare Activities

The following welfare activities were carried out during the period under reference.

- i. Held staff family day in Jetliner ship
- ii. Held a sports meet with the assistance of the sport club of TRCSL
- iii. Made donations for the death of relatives of staff members
- iv. The welfare committee maintained a welfare shop.

Staff Family Day

This was a one day programme held on 20th December 2010. The family members of the staff gathered to the Jetliner ship and had a short sea voyage. The objective of the programme was entertainment and creation of cordial relationship not only among the members of the staff themselves but among their family members as well.



Family members gathered in the Jetliner Ship

Sports Meet

The sports meet was held on 8th August 2010. All the staff from top to bottom were divided into three houses namely, Parakrama, Wijaya, and Gemunu and they actively participated in several indoor games, out door games and running and field events. The sports meet was an opportunity for the staff to be away from the office work. It was also a change for the staff.



Staff participating in the events of the sports meet

Death Donations

The Welfare Society of TRCSL continued its practice of making donations from its own fund to staff members when a death of a relative occurred with a view to giving at least some relief to the staff member.

Welfare Shop

The welfare shop enabled the staff to purchase goods at reasonable price and an opportunity was provided to purchase items on installment basis to those who wished to do so. The Welfare Society made arrangements to bring trading agencies to TRCSL premises to facilitate the staff to purchase items conveniently according to their choice.

8.2.7 Logistic Support

The Administration Division provided logistic support for activities of other Divisions of TRCSL such as conducting of meetings, workshops, seminars, inspection visits, implementation of projects etc.

8.2.8 Recommendation/Approval of Payments

One main activity of the Administration Division was granting approval for making a variety of payments related to increments, overtime, arrears, traveling and subsistence, disciplinary inquiry fees, vehicle repairs, purchase of perishable items, equipment and machinery, books and periodicals and supply of services (security, cleaning, water, telephone, electricity) . The Division carefully examined payment vouchers and made recommendations or granted approval depending on the nature of the payment and the financial authority limit. Action was taken to make the payments without delay.

8.2.9 Identification of lapses and introduction of suitable procedures

The Administrative Division took steps to introduce suitable procedures into the system when lapses were identified in certain areas of work. For example the subordinate staff was given suitable instructions to maintain lists/ registers in respect of their subjects to ensure easy access to information as and when required and help new comers/ successors to understand the subject without difficulty. This also enhanced the efficiency of the staff and overall productivity of the TRCSL.

Chapter 9

Legal Division

9.1. Functions

- Provide legal opinion / advice to the Commission on matters/documents requiring such opinion.
- Draft rules, regulations, orders, guidelines and licenses for the Commission.
- Refer matters to the Hon. Attorney General or Private Counsels for litigation purposes
- Represent the Commission in cases brought before the courts and all matters relating thereto including drafting filing etc.
- Draft official letters, and other correspondence, commission papers, contracts and agreements for the Commission.
- Implementation of section 18A of the Act
- Provide legal support to other Divisions and enforcement of measures under the Telecommunications Act, Finance Act No. 11 of 2004, rules, regulations, licences, orders, determinations etc.
- Provide legal assistance to other institutions.

9.2. Performance

The Legal Division provided legal support to the Commission and other Divisions/ Units of the TRCSL on regulatory matters such as frequency licensing, vendors licensing, tariffs, compliance issues, consumer matters and in house legal matters relating to administration and human resources. The Division also appeared before the court in cases on behalf of the TRCSL. In the case of certain court cases TRCSL obtained the services of Attorney General's Department and other counsels. A brief description of major activities carried out by the Legal Division in 2010 is given below:-

9.2.1. Litigations

In 2010 the following parties challenged the determinations of the Commission to impose a floor rate by filing cases in the Supreme Court.

- Bharti Airtel Lanka (Private) Limited vs. TRC, and two others
- Hasitha Kalansuriya vs. TRC, and two others
- Prabath Sudarshana Wickremasighe Gunawardena Vs. TRC and others

Bharti Airtel Lanka (Pvt) limited (SC FR 404/2010), Hasitha Kalansuriya (SC/ FR 406/2010) and Prabath Sudarshana Wickramesighe Gunawardena (SC /FR 415/2010) by way of a fundamental rights application filed in the Supreme Court of Sri Lanka challenged the main regulatory tariff decision/determination made by the Commission in terms of Section 5 (k) of the Sri Lanka Telecommunications

Act, No 25 of 1991 to impose a floor rate to both Mobile and Fixed operators from 15th July 2010.

Bharti Airtel Lanka (Private) limited alleged that the decision/determination to impose a floor rate violates Article 12, 12(1) and 14 (1) (g) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The floor rate was applicable to both fixed and mobile operators. The determination set out a floor rate for voice and short message services (SMS). The relief prayed by Bharti Airtel was either to set aside the decision of the Commission or to apply the floor rate to all tariff plans whether imposed before or after the effective date of imposition of the floor price.

Hasitha Kalansuriya, the Petitioner filed a case in the supreme court challenging the said floor rate. His contention was that as a subscriber of Mobile services the floor price affects the users. Hence he prayed for the setting aside of the order made by the Commission to implement a floor rate /floor price to the new subscribers from 15th July 2010.

Prabath Sudarshana Wickramesighe Gunawardena, the Petitioner, filed the case as a subscriber of both Mobile and Fixed telecom services alleging his fundamental rights under article 12(1) have been infringed or would be imminently infringed for new mobile and fixed subscribers with the introduction of minimum floor rate from 15.07.2010. This was a milestone case due to the fact that some other operators such as Mobitel Lanka (Pvt) Limited, Dialog

Axiata PLC, Dialog Broadband Networks (Private) Limited, Etisalt Lanka (Pvt) Limited and Sri Lanka Telecom PLC made applications to the court to become Intervient-Petitioners in the above cases as their rights would be affected. The Supreme Court allowed submissions from the petitioners, respondents and intervenient –petitioners. The Supreme Court after hearing the arguments of all the parties, refused the applications made by the petitioners. This was an achievement of the regulator as TRCSL's decision to decide on the tariffs affecting the industry was upheld by the Supreme Court.

The Legal Division provided all the necessary information and documents for this case to the counsel who appeared on behalf of TRCSL.

9.2.2. Attending to other cases before courts/ tribunals

In 2010 there was a marked increase in internet related complaints. Several cases were filed in the Magistrate courts and Juveniles courts of Sri Lanka to block certain websites mainly foreign web sites for having obscene content. Some foreign web sites/addresses were blocked from Sri Lanka on court orders.

There were many other cases filed in year 2010 and others that continued from previous years ranging from human resources matters to regulatory decisions in Courts and other tribunals such as Human Rights Commission, Labour Department and Industrial Court.

9.2.3. Assistance to other Government Institutions

In the year 2010, the Legal Division was instrumental in providing assistance to the Treasury under the Ministry of Finance and Planning to promulgate new regulations and amendments relating to the International Telecommunications Operator Levy imposed under Part III of the Finance Act, No 11 of 2004.

9.2.4. Preparation of Cess Order

In December 2010 a Cess Order was issued by the His Excellency the President in terms of section 22G of Sri Lanka Telecommunications Act No 25 of 1991, to increase the Cess rate from 0.3% to 2% of the annual gross turnover of the operator. The Legal Division was involved in the preparation of the Cess order.

9.2.5. Enable Project

The Legal Division collaborated with the Policy and International Relations Division in carrying out the enable project for providing ICT facilities to disempowered groups such as schools with special needs and Ranaviru villages (see 3.2.4). The Commission expenditure for this project to purchase equipment such as computers, monitors, printers, brail emboshy paper, UPS, arcade duplicator was Rs. 4.5 million.

9.2.6. Consumer complaints

The Legal Division attended to more than 100 consumer complaints referred to the Division by the Consumer Relations Unit seeking legal advice on various issues.

Chapter 10

Information & Documentation Unit

The Information and Documentation Unit consists of two Sections, namely the Information and Technology (IT) Unit and the Library Services Unit.

10.1. Functions

10.1.1. IT Unit

- Maintaining and documenting the existing application systems.
- Developing new IT applications for the TRCSL.
- Providing technical support to TRC staff with regard to IT.
- Providing training on IT user base to TRC staff.
- Handling all Internet activities of the TRCSL including list and bulletin board services.
- Maintaining the TRCSL website under the guidance of the website committee.
- Designing and implementing internal information networks.
- Collecting and disseminating information through exhibitions.
- Administration and maintenance of the email server.

10.1.2. Performance

Information relevant to major activities carried out by the IT Unit is given in table 15

Activities carried out by the IT Unit-2010 (Table 15)

Project	Description
Upgrading of ESET Nod 32 Antivirus Software to ESET Smart Security and Renewing of the Licenses	This was completed in 2010 and computers of the TRCSL could be protected from virus attacks. Rs.221500.00 were spent for this purpose.
Upgrading of Lotus Notes and Lotus Domino Software	Documentary activities related to the procurement were completed in 2010
Procurement of email server computer, server racks, software and installation of software	New high speed server was purchased, software was installed. Rs.998685.43 were spent for this purpose.
2nd Floor Fiber Repair and TRCSL LAN System Numbering	Documentary work related to the procurement were completed in 2010
Upgrading the Speed of the Existing Sutel Dedicated Internet Leased Line linked to TRCSL Email Server from 128kbps to a higher speed of 512kbps.	This was very helpful to speed up access of the TRC email service. This was done without any rental increasing.
Purchasing Hardware Firewall System (progressing)	Progressing

10.2. Functions of Library Services Unit

- Maintaining a library for internal staff, University students, school children, researchers and librarians etc.
- Provide library facilities of other libraries such as Public Library and British Council
- Coordinate with the National library and other institutions such as National Institute of Business management (NIBM), Labour Department, National Science Foundation (NSF) etc. for providing inter library loan facility service to the TRCSL staff.

- Organize seminars for the TRCSL staff
- Preparation of newspaper index

10.2.1. Performance

The Library Services Unit continued the maintenance of the library which contains several documents, books and periodicals relevant to the telecommunications sector. It provided information to its clients using internet and other library databases. In addition to books and magazines on telecommunication, the library contains important reading materials on other subject areas such as Management, Law, Economics, Accounts etc.

Automating the library collections using PURNA database was an important activity carried out in 2010. It was possible to complete about 6000 records during this period. The Unit purchased books and magazines from several sources and Rs.478021 were spent in 2010 for purchasing books and payment of subscription renewal fees.

The Unit continued the preparation of newspaper article index on several subject areas such as telecommunication, environment, events of historical importance etc. Copies of these articles were given free of charge when the users made requests.

The Library Services Unit was instrumental in obtaining institutional membership of the following organizations.

1. Public Library
2. National Library
3. British Council

Because of the possession of institutional membership, members of the TRCSL staff could receive the services of the above libraries without making any payment. However in the case of the Public Library the staff members were required to obtain individual membership after the payment of the membership fee. TRCL provided funds for obtaining membership of the British Council and National Library. Because of the institutional membership the TRC staff was able to obtain books/magazines etc. from the mobile library service of the Public Library. Mobile library visited TRCSL premises on 24 occasions during 2010.

Chapter 11

Internal Audit Division

The Head of the Internal Audit Division (Chief Internal Auditor) directly reports to the Commission and the reports are submitted to the Audit Committee.

Administratively Chief Internal Auditor reports to the Director General.

11.1 Functions

- Review and appraisal of existing accounting and reporting systems of TRCSL with a view to making improvements thereto.
- Investigation into causes and effects of inabilities (if any) to achieve the objectives of TRCSL
- Ascertainment of the extent to which TRCSL assets are safeguarded from losses and frauds
- Making inquiries into necessities of transactions, benefits of transactions and exploration of areas of cost reduction by eliminating waste and extravagance
- Submission of reports to the Audit Committee based on the findings of the abovementioned tasks and arrange Audit Committee meetings
- Preparation and circulation of the decisions of the Audit Committee to Heads of Divisions to take appropriate action.
- Submission of half yearly reports to the Auditor General's Department

- Carry out special investigations requested by Director General/ Members of the Commission when required
- Assist and make recommendations to various committees appointed by Director General/ Commission from time to time.

11.2 Performance

11.2.1 Audit Committee Meetings

The Audit Committee of TRCSL consists of two non executive members of the Commission. During the period under

reference three audit committee meetings were held and discussed 37 reports submitted by the Chief Internal Auditor. Decisions taken by the audit committee were circulated for corrective/ necessary action.

During the year 2010, thirty seven (37) numbers of internal audit reports were submitted to the Audit Committee and a list of these reports is given in table 16.

List of Reports Submitted by the Internal Audit Division – 2010 (Table 16)

Report No	Date of the report	Topic
CIA/10/01	04/01/2010	Comments on the report issued by Auditor General under section 14(2) (c) of the Finance Act, on the Financial statement of TRCSL for the year end 31 Dec.2008
CIA/10/02	13/01/2010	Foreign visits on official duties
CIA/10/03	09/02/2010	Unsettled advances
CIA/10/04	22/02/2010	Security services and canteen services of TRC
CIA/10/05	01/03/2010	Cash in hand at 31st Dec.2009
CIA/10/06	05/03/2010	Checking of payment vouchers
CIA/10/07	09/03/2010	Construction of proposed tower and equipment building at Kokavil
CIA/10/08	10/03/2010	Officers on two years no pay leave
CIA/10/09	11/05/2010	Annual reports and Accounts of TRCSL
CIA/10/10	21/05/2010	Maintenance of running charts of pool vehicles
CIA/10/11	02/06/2010	Payment of travelling and subsistence

CIA/10/12	04/06/2010	Cost of air tickets for fellowships offered by APT
CIA/10/13	15/06/2010	Status of the reports issued by Auditor General's department
CIA/10/14	16/07/2010	Usage of book copy of official receipt
CIA/10/15	20/06/2010	Procurement of three numbers of cars
CIA/10/16	23/06/2010	Checking of payment vouchers
CIA/10/17	28/06/2010	Frequency license invoices
CIA/10/18	30/06/2010	Comments on Financial Statements for the year ended 31st Dec.2009
CIA/10/19	02/08/2010	Custody of used receipts and cheque counterfoils
CIA/10/20	05/08/2010	Collection of mobile subscriber levy
CIA/10/21	09/08/2010	Collection of Environment conservation Levy
CIA/10/22	08/09/2010	Management information for the period January to June 2010
CIA/10/23	06/10/2010	Publication of statistics in TRC web site
CIA/10/24	18/10/2010	Medical insurance and salaries payable account
CIA/10/25	18/10/2010	Preliminary report and Full report under F.R.104
CIA/10/26	19/10/2010	Maintenance of Loss Register
CIA/10/27	02/11/2010	Status of the reports issued by Auditor General's department
CIA/10/28	02/11/2010	Analysis of running charts
CIA/10/29	25/10/2010	Reimbursement of cost of air tickets
CIA/10/30	04/11/2010	Maintenance of Cash /cheque Register
CIA/10/31	04/11/2010	Maintenance of cash books
CIA/10/32	11/11/2010	Journal entries to general ledger
CIA/10/33	18/11/2010	Checking of payment vouchers
CIA/10/34	24/11/2010	Payment of overtime for CTO conference
CIA/10/35	26/11/2010	Maintenance of running charts
CIA/10/36	30/11/2010	Checking of payment vouchers
CIA/10/37	13/12/2010	Payment of salaries

Finance Division

12.1 Functions

- Preparing annual operating, capital and revenue budgets.
- Billing and collecting various licence fees, cess fees and spectrum-usage fees.
- Updating revenue records, collecting revenue, monitoring financial control, maintaining the Commission's revenue master file.
- Monitoring funds utilization, preparing salaries, wages, overtime and other payments and updating payment records.
- Maintaining final asset register
- Preparing financial statements.
- Monitoring and controlling actual budget.
- Preparing and submitting relevant reports to government auditors.
- Preparing and making available the information required by Commission members, Ministry officials and others from time to time.

12.2 Performance

12.2.1. Revenue and Expenditure

As per provisions of the Telecommunications Act, No. 27 of 1996, TRCSL collected system operator license fees, cess fees, radio frequency fees and other fees from the relevant parties and a summary of the income is set out in table 17. For comparison, revenue in 2009 is also indicated in the table.

Revenue of TRCSL 2009 - 2010 (Table 17)

Source of Income	2009 (Rs. 000')	2010 (Rs. 000')
System Operator License Fees	899,275	434,633
Cess Fees	390,571	340,095
Radio Frequency Fees	4,936,332	5,116,864
Vendor License Fees	4,926	6,077
Amateur Radio License Fees	68	30
Ship Station License Fees	608	296
Aircraft Station License	500	230
Cordless Phone Dealer Charges	1,080	1,927
Examination Fees	5	7
Application Processing Fees	1,231	206
Short Code Charges	2,603	3,608
Sundry Income (<i>Interest Income from Staff Loans, Interest Income from Deposits and Miscellaneous</i>)	8,411	8,830
Total	6,245	5,913

In addition to the above income, an amount of Rs.418 million was available to the Commission in 2010 as Telecom Development Charges after making relevant payments to the Treasury.

The total income over expenditures in 2010 before income tax was Rs. 5,577 million and it was Rs. 5,634 million in 2009. However, the amount paid as income tax (Rs.1,767million) in 2010 was very much greater than that in 2009 (Rs. 677 million). Accordingly, the income over expenditure after payment of income tax in 2010 and 2009 were Rs.3,810 million and Rs. 4,957 million respectively.

12.2.2 Levy Collected from Public Switching Telephone Network (PSTN) operators

The levy collected from PSTN operators was credited to the consolidated fund and details of collection in 2009 and 2010 are given in table 18. Environment conservation levy and cellular mobile telephone subscribers levy were collected from the licensed cellular phone operators and cordless land telephone subscribers levy was collected from licensed Code Division Multiple Access (CDMA) operators.

Levy Collected from PSTN Operators for
Remitting to the Treasury (Table 18)

Type of Levy	2010 (Rs. Mn)	2009 (Rs. Mn)
Mobile Telephone subscribers Levy	6,014	5,399
Cordless and Fixed Land Telephone Subscriber's Levy	2,311	2,895
Environment conservation Levy	1,066	947
Total Levy credited to the Consolidated Fund	9,391	9,241

12.2.3 Funds Remitted to the Consolidated Fund

The surplus over the operational expenditures of the Commission was remitted to the consolidated fund. The amount so remitted to the consolidated fund in 2010 was Rs. 3.8 billion and it was an increase of 182% over the remittance in 2009. In addition, an amount of Rs.13.8 billion was also transferred in 2010 to the consolidated fund from the collection of International Telecommunications Operators Levy as per Finance Act No. 11 of 2004. Under the same Act, the levy collected from PSTN operators (Rs.9.4 billion) was remitted to the Treasury. Accordingly, the total amount transferred to the consolidated fund in 2010 was Rs. 27 billion

12.2.4 Fixed Assets.

The value of fixed assets as at 01st January 2010 was Rs.818 million and it was Rs.789 million at the end of the year. Accordingly, the net reduction of the fixed assets during the year was Rs. 29 million. The total amount provided for depreciation for the year was Rs. 523 million and the cumulative depreciation as at the balance sheet date was Rs. 484 million. Thus the net book value of fixed assets as at 31 December 2010 was Rs 305 million.

12.2.5. Budget and the actual values

Table 19 indicates the budget values and actual values of income and expenditure for the year 2010.

Budget Vs. Actual – 2010 (Table 19)

Income/ Expenditure	Budget (Rs Mn.)	Actual (Rs. Mn.)	Variance Over (Under) (Rs. Mn.)
Income	4,793	5,913	1,120
Expenditures			
Capital Expenditure	284	228	(56)

Revenue Expenditure			
<i>Regulatory Expenditure</i>	319	64	(255)
<i>Admin and Establishment Expenditure</i>	142	287	145
<i>Repair and Maintenance Expenditure</i>	46	34	(12)
<i>Finance and other expenses</i>	5	8	3
<i>Provision for bad debtors</i>	0.1	158.5	158.4

The figures stated in the above tables are rounded figures and the actual figures can be found in the in the financial statements, the budgeted balance sheet,

income and expenditure accounts and other books of accounts of TRCSL for the year 2010.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED**
December 31, 2010

TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA
BALANCE SHEET AS AT DECEMBER 31, 2010

(Expressed in Sri Lanka Rupees)

	NOTES		
EMPLOYMENT OF CAPITAL			
PROPERTY, PLANT & EQUIPMENT	2	304,822,366.86	295,248,869
WORK IN PROGRESS	3	258,438,061.81	103,857,050
		563,260,428.67	399,105,919
INVESTMENTS	4	7,749,665,953.71	15,743,763,837
CURRENT ASSETS			
Accounts Receivable	5	2,897,743,424.94	4,966,120,371
Other Receivables		609,999.50	610,000
Distress Loans		23,165,326.03	24,025,061
Pre Payments		322,500.00	815,000
Special Advances		13,575.00	2,075
Festival Advances		123,758.07	115,858
Motor Vehicle Loans		57,005,466.46	55,809,499
Housing Loans		6,612,609.00	7,613,002
Motor Cycle Loans		2,101,329.15	3,030,571
Special Loan - TSUNAMI		0.00	27,723
Purchase Advances		292,080.00	406,520
Air Ticket Receivable		285,906.00	0
Salary Deduction Recoverable		12,981.94	0
Interest Receivable on Fixed Deposits		1,664,312.77	2,802,430
Commissioner General of Inland Revenue (WHT)		713,079.92	63,774,376
Claimable Economic Service Charges		0.00	68,246,253
TDC Receivable		0.00	261,804,594
Over Recovered Income Tax by Com.Gen.In. Rev.		0.00	7,362,538
Cash at banks	6	1,474,454,040.87	150,584,615
Cash in hand	6B	16,525.48	38,098
		4,465,136,915.13	5,613,188,584
CURRENT LIABILITIES			
Accounts Payable	7	27,125,751.86	101,816,685
Outstanding Staff Loan Recoveries		1,175.07	58,605
VAT Control Account		87,450,765.70	344,295,423
Provision for Income Tax		236,409,096.00	1,457,069,402
C.T.O Telecenter Project Payables		924,491.92	924,492
Insurance Claim Received for Damaged Antenna		0.00	4,899,602
Construction Creditors		751,650.00	4,217,199
Revenue Received in Advance		2,715,896,910.62	2,052,842,913
Refundable Deposits		1,153,612.00	1,151,112
Advances Received for 1800 MHz Band		307,635,000.00	307,635,000
Provision for Gratuity		21,533,040.00	19,296,380
ICT for Effective Disaster Management Summit		34,209.75	34,210
50% TDC Payable to Treasury		118,458,551.73	0
Unclaimed Employees Benefit		7,737.98	
		3,517,381,992.63	4,294,241,022
NET CURRENT ASSETS		947,754,922.50	1,318,947,562
		9,260,681,304.88	17,461,817,317

REPRESENTED BY

Government Contributions via

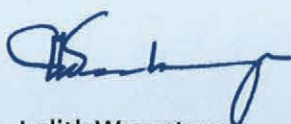
- World Bank Credit Agreement
 - United Nations Development Program
- Other Government Contributions

International Telecommunications Operators Levy Fund
LESS :Transferred to Consolidated Fund

ADD:

Accumulated Surplus
Revaluation Surplus

298,572,433.87	298,572,434
19,533,906.00	19,533,906
208,108,404.22	208,108,404
526,214,744.09	526,214,744
21,254,347,225.16	15,704,170,073
(13,815,293,948.62)	0
7,439,053,276.54	16,230,384,817
1,241,833,284.25	1,231,432,500
53,580,000.00	0
9,260,681,304.88	17,461,817,317



Lalith Weeratunga
Chairman



Anusha Palpita
Director General of Telecommunications



A.S.Hapuarachchi
Assistant Director (Revenue)
Acting for Deputy Director (Finance)

TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA
INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in Sri Lanka Rupees)

	NOTES		
INCOME	8	5,912,802,429.51	6,245,609,858
Less :Nations Building Tax		(200,055,587.00)	(154,297,892)
		5,712,746,842.51	6,091,311,967
Telecom Development Charges	8B	418,436,403.23	0
		6,131,183,245.74	6,091,311,967
Less: Regulatory Expenses	9	(63,894,039.94)	(89,457,878)
		6,067,289,205.80	6,001,854,089
LESS: OTHER EXPENDITURES			
Administration & Establishment	10	287,338,563.37	311,036,932
Repairs & Maintenance	11	34,027,414.40	28,167,195
Finance & Others	12	8,420,404.75	7,444,838
Provision For Bad Debtors		158,553,234.27	21,455,742
Loss/(Gain) on Foreign Currency Transactions		1,643,315.65	(228,325)
		489,982,932.44	367,876,382
Income Over Expenditure for the Period Before Income Tax		5,577,306,273.36	5,633,977,707
Income Tax		1,766,905,489.18	676,820,549
Income Over Expenditure for the Period After Income Tax		3,810,400,784.18	4,957,157,158
Less: Contribution to the Consolidated Fund		(3,800,000,000.00)	(1,350,000,000)
Total Income Over Expenditure for the Year		10,400,784.18	3,607,157,158
Add:			
Surplus/(Deficit) Brought Forward		1,231,432,500	(2,375,724,658)
Accumulated Surplus /(Deficit)		1,241,833,284.25	1,231,432,500

TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA
CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in Sri Lanka Rupees)

Cash flows from operating activities

Net profit before taxation

5,577,306,273.36

Adjustments for

Depreciation on Property, Plant and Equipment

58,971,221.51

Understated Interest - Fixed Deposits

(1,203,093.36)

Provision for Bad & Doubtful Debtors

158,553,234.27

Provision for Gratuity

2,368,570.00

Loss on Foreign Currency Transactions

1,643,315.65

220,333,248.07

Operating Profit before working capital changes

5,797,639,521.43

Changes in Working Capital

Decrease in Accounts Receivable

1,909,823,711.94

Decrease in Distress Loans

859,734.72

Decrease in Pre Payments

492,500.00

Increase in Special Advances

(11,500.00)

Increase in Festival Advances

(7,900.00)

Increase in Motor Vehicle Loans

(1,195,967.42)

Decrease in Housing Loans

1,000,393.00

Decrease in Motor Cycle Loans

929,241.44

Decrease in Special Loan - TSUNAMI

27,723.30

Decrease in Purchase Advances

114,440.00

Increase in Air Ticket Receivable

(285,906.00)

Increase in Salary Deduction Recoverable

(12,981.94)

Decrease in Interest Receivable on Fixed Deposits

1,138,117.03

Decrease in Commissioner General of Inland Revenue (WHT)

63,061,296.40

Decrease in Claimable Economic Service Charges

68,246,252.97

Decrease in TDC Receivable

261,804,594.22

Decrease in Accounts Payable

(74,690,933.04)

Increase in Outstanding Staff Loan Recoveries

(57,429.71)

Decrease in VAT Control Account

(256,844,657.34)

Decrease in Insurance Claim Received for Damaged Antenna

(4,899,601.73)

Decrease in Construction Creditors

(3,465,548.79)

Increase in Revenue Received in Advance

663,053,997.47

Increase in Refundable Deposits

2,500.00

50% TDC Payable to Treasury

118,458,551.73

Unclaimed Employees Benefit

7,737.98

Increase in ITO Levy fund

(8,265,116,796.77)

(5,517,568,430.54)

280,071,090.89

Gratuity Paid

(131,910.00)

Income Tax Paid

(2,980,203,257.55)

(2,980,335,167.55)

Net Cash Generated Through Operating Activities

(2,700,264,076.66)

Cash flow from investing activities

Purchase of Property , Plant and Equipment
Construction Work
Contribution to Consolidated Fund
Fixed Deposit
State Institutions Temporary Surplus Trust Fund
Net cash used in investing activities

(14,964,719.16)
(154,581,011.67)
(3,800,000,000.00)
(2,844,765.00)
7,998,145,741.84
4,025,755,246.01

Cash flow from financing activities

Government Contribution
World Bank Credit
Net cash used in financing activities

0.00
0.00

Net Decrease in cash and cash equivalents

1,325,491,169.35**Analysis of cash and cash equivalents**

	31.12.2010	01.01.2010	Change during the period
Cash at Bank			
People's bank - Narahenpita Branch, Current A/c No.119-1-001-4-3693169 (Collection A/c)	694,399,600.17	31,784,243.00	662,615,357.17
Bank of Ceylon - Narahenpita Branch, Current A/c No.2323167	136,349,003.83	5,891,266.00	130,457,737.83
People's bank - Narahenpita Branch, Current A/c No.119-1-001-4-3693264 (ITO Levy)	588,824,192.25	57,592,201.00	531,231,991.25
People's bank - Narahenpita Branch, A/c 119/RFC/ SA/ USD/0032	54,881,244.62	55,316,905.00	(435,660.38)
	1,474,454,040.87	150,584,615.00	1,323,869,425.87
Cash in hand	16,525.48	38,098.00	(21,572.52)
Cash and cash equivalents as previously reported	1,474,470,566.35	150,622,713.00	1,323,847,853.35
Effect of exchange rate changes	0.00	0.00	1,643,316.00
Cash and Cash equivalents	1,474,470,566.35	150,622,713.00	1,325,491,169.35

TELECOMMUNICATIONS REGULATORY COMMISSION OF SRI LANKA
NOTES TO ACCOUNTS – 31.12.2010

1. ACCOUNTING POLICIES

1.1 GENERAL ACCOUNTING POLICIES:

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

1.1.2 Post Balance Sheet Events

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

1.1.3 Foreign Currency Conversion

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

1.1.4 Previous Year Adjustments

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

1.2 VALUATION OF ASSETS:

1.2.1 Accounts Receivable

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

1.2.2 Property, Plant and Equipment

1.2.2.1 The cost of Property, Plant and Equipment is the cost of purchase or construction together with any incidental expenses thereon. The Property, Plant and Equipment are recorded at cost (or valuation) less accumulated depreciation, which is provided for on the bases specified in the Note 1.2.3 below.

1.2.2.2 The fully depreciated vehicles of the Commission have been revalued and taken in to books of account of the Commission in 2010. All together 28 vehicles of the Commission have been revalued to Rs. 53,580,000/- and the depreciation for revalued vehicles has been provided at the rate of 12.5% for the year ended 31.12.2010.

1.2.2.3 Property, Plant and Equipment acquired under the International Development Association Credit Agreement have been capitalized.

1.2.3 Depreciation

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

Estimated Useful Lives of PPE

Buildings	Over 20 Years
Furniture & Fittings	Over 10 Years
Office Equipment	Over 10 Years

Computers	Over 04 Years
Motor Vehicles	Over 08 Years
Generators	Over 10 Years
Office Telephones	Over 10 Years
Office Furniture	Over 10 Years
Technical Equipment	Over 10 Years
FMMS Equipment	Over 10 Years
Mobile Surveillance Vehicles	Over 08 Years

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

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

1.2.4 Investments

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

1.3 LIABILITIES AND PROVISIONS:

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

1.3.1 Capital Commitment and Contingencies

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

1.3.2 International Development Association

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

1.4 INCOME AND EXPENDITURE:

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

1.4.1 Cess and Operator Fees are charged as a percentage on Operators' Turnover and Additional Investment respectively and being collected after the end of Operators' Financial Year.

As Financial Year ending dates of Operators and the Commission are different Cess and Operator fees are accounted based on projections prepared as per the available recent information in view to ensure the identification of revenue in the Accounts on accrual basis.

The effect of the change in the above accounting estimate was included in the determination of total income over expenditure. The effect in 2009 is as follows.

	Estimate Revenue for year 2009	Actual Revenue for year 2009	Effect of or change in accounting estimate
Operator Fees	655,678,166.90	523,640,022.81	132,038,144.10
Cess Fees	383,433,506.97	356,386,556.56	27,046,950.41

1.4.2 Government Grants

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

2. PROPERTY, PLANT & EQUIPMENT

COST	BALANCE	For the Year 2010		BALANCE
	AS AT 01.01.2010	ADDITIONS	DISPOSALS/ TRANSFERS	AS AT 31.12.2010
Lands	136,475,809.75	0.00	0.00	136,475,809.75
Lease Hold Lands	345,502.00	0.00	0.00	345,502.00
Buildings	133,775,324.95	3,043,352.47	3,544,522.80	133,274,154.62
Vehicles	89,419,738.67	51,708,500.00	36,971,236.67	104,157,002.00
Air conditioners	7,571,172.96	1,401,400.00	0.00	8,972,572.96
Elevators	4,683,848.00	0.00	0.00	4,683,848.00
Generators	2,665,427.50	0.00	0.00	2,665,427.50
Computers	31,483,550.70	3,923,983.09	0.00	35,407,533.79
Web Server	2,213,660.93	0.00	0.00	2,213,660.93
Other Office Equipment	17,237,889.16	276,723.00	0.00	17,514,612.16
Mobile Phones	485,436.12	56,650.00	0.00	542,086.12
Office Furniture	9,318,637.35	2,143,122.80	0.00	11,461,760.15
Technical Equipment	11,959,404.78	3,641,875.00	0.00	15,601,279.78
FMMS Project Surveillance Vehicles	62,962,960.18	4,224,014.26	61,386,974.44	5,800,000.00
FMMS Project Equipment	301,093,624.88	2,521,577.18	0.00	303,615,202.06
Video Unit Equipment	6,447,838.88	93,636.00	0.00	6,541,474.88
	818,139,826.81	73,034,833.80	101,902,733.91	789,271,926.70

DEPRECIATION	BALANCE	For the Year 2010		BALANCE
	AS AT 01.01.2010	ADDITIONS	DISPOSALS/ TRANSFERS	AS AT 31.12.2010
Buildings	70,586,709.37	6,651,096.84	0.00	77,237,806.21
Vehicles	54,321,974.16	12,936,812.75	36,971,236.67	30,287,550.24
Air Conditioners	7,111,073.80	387,534.41	0.00	7,498,608.21
Elevators	4,683,848.00	0.00	0.00	4,683,848.00
Generators	2,606,058.75	59,368.75	0.00	2,665,427.50
Computers	23,247,450.10	3,999,924.58	0.00	27,247,374.68
Web Server	2,213,660.94	0.00	0.00	2,213,660.94
Other Office Equipment	11,619,392.40	944,660.18	0.00	12,564,052.58
Mobile Phones	260,601.79	34,849.72	0.00	295,451.51
Office Furniture	5,634,103.86	1,114,906.08	0.00	6,749,009.94
Technical Equipment	3,464,462.10	1,556,594.29	0.00	5,021,056.39
FMMS Project Surveillance Vehicles	61,386,980.45	725,000.00	61,386,974.44	725,000.00
FMMS Project Equipment	270,605,643.40	31,117,993.36	0.00	301,723,636.76
Video Unit Equipment	5,148,998.88	388,078.00	0.00	5,537,076.88
	522,890,958.00	59,916,818.96	98,358,211.11	484,449,559.84
NET BOOK VALUE	295,248,868.81			304,822,366.86

(Expressed in Sri Lanka Rupees)

Notes:

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

WORK IN PROGRESS

	BALANCE AS AT 01.01.2010	For the Year 2010		BALANCE AS AT 31.12.2010
		ADDITIONS	DISPOSALS/ TRANSFERS	
Construction of				
Boundry Wall- Kadirana	8,578,836.94	1,059,257.18	0.00	9,638,094.12
Ren. of Entrance Lobby &				
Main H/O Building	180,000.00	0.00	0.00	180,000.00
Construc. of Tower at Vauniya	5,050,331.73	21,252,283.72	0.00	26,302,615.45
Construc. of Tower at Kokavil	90,047,881.47	132,186,755.16	0.00	222,234,636.63
Construction of				
Tower at Paliyagoda		82,715.61	0.00	82,715.61
	103,857,050.14	154,581,011.67	0.00	258,438,061.81

INVESTMENTS

Treasury Deposits	354,000,000.00	354,000,000.00
Fixed Deposit (Gratuity Provision)	19,296,380.00	15,248,521.64
State Institution's Temporary Surplus Trust Fund	7,736,369,573.71	15,374,515,315.55
	7,749,665,953.71	15,743,763,837.19

ACCOUNTS RECEIVABLE

TRADE DEBTORS		
Radio Frequency Fees	2,159,744,355.62	4,024,801,269.43
Operator Fees	603,406,071.13	655,678,166.75
Cess Fees	390,933,786.12	383,433,506.97
Amature Radio	22,144.37	17,126.03
	3,154,106,357.24	5,063,930,069.18
Less - Provision for Bad Debtors **	(256,362,932.30)	(97,809,698.03)
	2,897,743,424.94	4,966,120,371.15

Note:

	Debtors		Provisions
Provision for Bad Debtors		%	
More Than 02 Years	254,714,539.85	100	254,714,539.85
More Than 01 Year Less Than 02 Years	16,483,924.48	10	1,648,392.45
More Than 6 Months & Less Than 01 Year	63,134.06	0	0.00
More Than 2 Months & Less Than 6 Months	29,096,114.07	0	0.00
More Than 01 Month & Less Than 2 months	636,842,554.55	0	0.00
Less Than 01 Month	1,222,566,347.87	0	0.00
	2,159,766,614.88		256,362,932.30

(Expressed in Sri Lanka Rupees) (Contd...)

Notes:

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

CASH AT BANK

People's Bank - Narahenpita Branch,
(Deposit Account)

A/c NO.119/RFC/SA/USD/0032

54,881,244.62

55,316,905.20

People's Bank - Narahenpita Branch,
(Collection Account)

Current A/c No.119-1-001-4-3693169

694,399,600.17

31,784,242.59

People's Bank - Narahenpita Branch, (ITO Levy)

Current A/c No. 119-1-001-3-3693264

588,824,192.25

57,592,200.99

Bank of Ceylon - Narahenpita Branch

Current A/c No.2323167

136,349,003.83

5,891,266.21

1,474,454,040.87

150,584,614.99

CASH IN HAND

Petty Cash - Head Office

6,572.50

10,000.00

Petty Cash - Kadirana

2,075.00

5,000.00

Cash In Hand

140.00

23,098.00

Unclaimed Employee Benefits

7,737.98

0.00

16,525.48

38,098.00

ACCOUNTS PAYABLE**ACCRUED EXPENSES**

Telephone - Office

315,499.11

295,996.73

- Bungalow

58,338.92

25,008.00

Salaries Control (Contract Employees)

749,019.66

345,955.00

Salaries Payable

74,197.00

74,197.00

Electricity

22,626.00

756,704.10

Water

14,832.00

113,004.80

Janitorial Services

463,236.89

233,101.71

Security Services

1,375,232.43

480,000.00

Overtime

688,034.25

781,520.00

E.P.F

134,681.25

62,522.02

E.T.F

16,161.75

7,502.58

Internet

2,848.50

2,309.20

Medical Insurance Claims

78,064.46

1,050,846.50

Staff Welfare

174,067.00

144,752.00

News Papers & Notifications

37,080.00

6,955.00

Audit Fees

1,031,400.00

840,000.00

Lease Rental

763,089.99

48,214.28

Travelling & Subsistence

0.00

59,500.00

Retention

40,595.00

40,595.00

2/3 Interest Reimbursement

124,198.64

185,325.90

Comm.Gen.IR (ESC,NBT & Stamp Duty)

15,776,219.80

60,618,278.44

Salary Deductions

61,305.28

12,054.17

Repairs & Maintenance Payable

2,568,171.54

6,142,991.65

Fuel Payable

33,933.00

96,630.60

Printing & Stationery

176,139.59

169,425.00

With Holding Tax Payable

101,055.80

144,198.22

Chairman's Remuneration Payable

0.00

25,000.00

Misc.Purchase & Supplies (Schedule - 1)

2,175,519.00

28,062,640.00

Miscellaneous

70,205.00

991,457.00

27,125,751.86

101,816,684.90

(Expressed in Sri Lanka Rupees) (Contd...)

INCOME

System Operator License Fees	434,632,607.20	899,275,180.20
Cess Fees	340,094,899.59	390,570,973.05
Radio Frequency Fees	5,116,864,418.82	4,936,331,831.39
Vendor License Fees	6,076,575.28	4,926,481.66
Amateur Radio License Fees	29,513.35	67,729.21
Ship Station License Fees	295,522.34	607,668.57
Aircraft Station License	229,917.20	499,982.07
Cordless Phone Dealer Charges	1,927,122.52	1,080,123.11
Examination Fees	7,461.76	4,574.55
Application Processing Fees	206,186.00	1,231,000.66
Short Code Charges	3,608,248.00	2,603,068.12
Sundry Income (8 A)	8,829,957.45	8,411,245.81
	5,912,802,429.51	6,245,609,858.40

SUNDRY INCOME

Interest Income from Staff Loans	3,715,788.96	3,855,383.34
Interest Income from Deposits	5,030,158.73	4,409,803.59
Miscellaneous	84,009.76	146,058.88
	8,829,957.45	8,411,245.81

TELECOM DEVELOPMENT CHARGES

TDC Revenue	836,873,071.96	0.00
Less:		
50% TDC Paid to Treasury	(299,978,117.00)	0.00
50% TDC Payable to Treasury	(118,458,551.73)	0.00
	418,436,403.23	0.00

REGULATORY EXPENSES

ITU Annual Subscription	17,263,718.46	17,112,390.71
APT Annual Subscription	1,438,895.75	1,456,304.00
Library Annual Subscription	95,631.02	215,842.09
CTO Annual Subscription	3,506,303.37	3,821,421.02
National Numbering Data Base	25,250.00	29,000.00
Public Awareness Programmes	562,155.52	3,923,323.00
Participating in Regulatory Affairs Work	14,570,322.55	20,820,648.22
Filing & Depending Court Actions	1,458,146.00	1,086,600.00
Public Awareness on Telecom Development	79,583.00	166,847.44
Network Development Monitoring	629,429.90	483,343.25
Conduct Research Studies	1,688,750.50	500,845.00
Monitor Mobile & TV Cable	45,999.00	0.00
ITU- NGN Workshop	0.00	8,976,358.55
SATRC Meeting	12,561,417.51	8,053,456.66
Contribution for SATRC Action Plan	263,973.00	1,739,685.50
Telecenter Project	1,102,977.00	1,192,305.37
Communi. Facilities for People with Special Needs	314,524.07	4,520,065.95
Telecom Related Survey	0.00	104,778.50
Vacating of 1800 Band	0.00	12,978,891.74
Visiting of Foreign Delegates	1,262,632.57	861,794.19
Survey on Quality of Service	0.00	12,625.00

(Expressed in Sri Lanka Rupees) (Contd...)

New Data Base Sec.18A	0.00	100,000.00
Beruwala Training Center	0.00	1,301,351.46
Prov. For Vacating 1800 Band	7,024,330.72	0.00
	63,894,039.94	89,457,877.65

ADMINISTRATION & ESTABLISHMENT EXPENSES

Salaries	61,610,354.68	57,471,371.69
E.P.F. (15% Contribution)	8,441,246.73	8,220,432.30
E.T.F. (3% Contribution)	1,688,249.55	1,667,688.22
Cost of Living Allowance	11,526,503.39	9,486,215.56
Transport Allowance	16,636,122.10	16,565,760.71
House Rent Allowance	5,290,865.48	4,944,436.59
Other Allowances	153,831.21	255,813.69
Performance Incentive	13,810,153.08	12,232,834.84
Overtime	10,094,054.65	8,938,173.18
Chairman's Remuneration	300,000.00	275,000.00
Unutilized Vacation Leave	3,395,212.00	3,286,351.56
Commission's Contribution for Pension	162,860.00	0.00
Travelling Concession - Rail	8,220.00	14,380.00
Bungalow Telephones	623,479.94	507,948.20
Uniforms	248,195.00	359,266.00
Staff Welfare	4,766,960.97	4,680,969.34
Development of Sports Activities	599,363.48	443,434.42
Staff Professional Membership Subcrip.	332,616.58	334,317.80
Local Training	611,094.19	1,574,343.17
Commission Members Allowance	7,341.22	3,000.00
Housing Loan 2/3 Interest Reimbursement	3,669,585.99	3,629,722.56
Travelling & Subsistence	227,855.87	111,350.00
Gratuity	2,368,570.00	3,226,282.50
Electricity	9,958,681.60	9,663,528.19
Water	1,232,850.73	1,140,747.61
Janitorial Services	2,621,052.51	2,785,250.36
Security	5,414,621.68	3,412,440.19
Rates & Taxes	0.00	808,888.00
Economic Service Charge	16,241,497.43	51,474,403.68
Library Books	350,043.71	453,466.14
Printing and Stationery	4,536,295.72	3,865,103.99
Fuel	5,220,009.00	6,253,046.29
Electrical Goods	103,781.00	91,861.00
Postage	557,542.00	419,600.29
Telephone, Fax and PABX	4,417,932.85	4,138,839.70
Insurance (Property & Medical)	18,782,669.50	22,293,755.68
Internet Charges	169,631.83	266,256.25
Newspapers & Notifications	5,942,181.45	7,679,885.91
Consultancy fees	0.00	128,500.00
Seminars & Conferences	183,055.00	399,564.00
Audit Fees	707,059.00	688,841.00
Legal Expenses	10,727.00	271,019.20

(Expressed in Sri Lanka Rupees) (Contd...)

Rentals for Leased Premises	1,827,813.57	3,603,617.33
Vehicle Hiring Charges	2,473.00	1,175.00
Rentals for Internet Leased Line	412,360.00	510,785.15
Depreciation	58,971,221.51	48,695,836.92
Administration Miscellaneous	2,257,647.63	2,988,016.58
Purchases & Supplies Miscellaneous	93,904.98	187,875.43
Operating Cost Miscellaneous	750,774.56	585,535.79
	287,338,563.37	311,036,932.01

REPAIRS & MAINTENANCE EXPENSES

Office Equipment Maintenance	2,218,854.70	1,815,317.60
Elevator Maintenance	364,911.88	317,600.50
Generator Maintenance	55,412.37	39,989.14
Vehicle Maintenance	7,151,076.11	8,030,069.62
Building Maintenance	1,387,271.42	2,046,961.79
Technical Equip. Maintenance	106,863.79	366,361.50
Software Maintenance & Development	14,468,148.62	15,494,360.11
Monitoring System Upgrade	8,171,036.94	0.00
Rep. & Maint. Misc	103,838.57	56,535.00
	34,027,414.40	28,167,195.26

FINANCE & OTHER EXPENSES

Bank Charges	123,745.00	123,850.00
Bank Debit Tax	7,094,895.75	6,250,143.85
Stamp Duty	1,201,764.00	1,070,844.00
	8,420,404.75	7,444,837.85



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கணக்காய்வாளர் தலைமை அறிப்பி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No

TM/E/TRC/FA/2010

ඔබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

09 August 2011

The Chairman

Sri Lanka Telecommunications Regulatory Commission

Report of the Auditor General on the Financial Statements of the Sri Lanka Telecommunications Regulatory Commission for the year ended 31 December 2010 in terms of Section 14(2) (c) of the Finance Act. No. 38 of 1971.

The audit of Financial Statements of the Sri Lanka Telecommunications Regulatory Commission for the year ended 31 December 2010 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act. No. 38 of 1971. My comments and observations, which I consider should be published with the annual report of the Commission in terms of Section 14(2)(c) of the Finance Act, appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was forwarded to the Chairman of the Commission on 20 May 2011.

1.2 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements; whether due to fraud or error selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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දුරකථනය
தொலைபேசி
Telephone. } 2691151

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කොළඹ 07, ශ්‍රී ලංකාව

ෆැක්ස් අංකය
பக்ஸ் இல
Fax No. } 2697451

INDEPENDENCE SQUARE,
COLOMBO 07, SRI LANKA

ඉලෙක්ට්‍රොනික් තැපෑල
ஈ-மேயில்
E-mail. } oaggov@shinet.lk

1.3 Scope of Audit and Basis of opinion

My responsibility is to express an opinion on these Financial Statements based on my audit. Audit opinion, comments and findings in this report are based on review of the Financial Statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka auditing Standards to obtain reasonable assurance as to whether the Financial Statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in Financial Statements and assessment of accounting policies and significant estimates made by the management in the preparation of Financial Statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. Sub-sections (3) and (4) of Section 13 of the Finance Act No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that, the Sri Lanka Telecommunications Regulatory Commission had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the Financial Statements of the matters referred to in Paragraph 2.2 of this report, the Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards give a true and fair view of the state of affairs of the Sri Lanka Telecommunications Regulatory Commission as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards (SLAS)

The following observations are made.

- a. In terms of Sri Lanka Accounting Standards No.3 not only the Board of Directors should sign the financial statements, a statement by taking the responsibility to prepare and present the financial statements had not been included in the financial statements.
- b. A statement of change of equity form an integral part of these financial statements had not been presented in terms of Sri Lanka Accounting Standard No.3.
- c. Even though the provision for gratuities amounting to Rs.21,533,040 and the investments made thereon amounting to Rs. 19,296,380 had been shown in the financial statements disclosures relating to the retirement benefit planning and the gratuity liability cost had not been made in terms of Sri Lanka Accounting Standard No. 16.
- d. Due to delay in paying income tax penalties payable for the assessment years 2006/2007 and 2007/2008 by the Commission had been waived off by the Department of Inland Revenue, but it had not been disclosed in terms of Sri Lanka Accounting Standard No.24. The Director General informed the Auditor General on 20 May 2010 that it would be disclosed in the financial statements for the year 2010.
- e. According to the Sri Lanka Accounting Standard No. 18 when the items of property, plant and machinery are stated at revaluated value, the date of implementation of the revaluation, whether an independent valuer had been employed, the method of estimating the fair value of items and the important assumptions should be disclosed in the financial statements. Nevertheless, such disclosures had not been made in respect of revaluation of 28 motor vehicles for Rs. 53,580,000 carried out by the Commission during the year under review.

2.2.2 Accounts Receivable

The following observations are made.

- a. Out of the value of Current assets of the Commission, 90 per cent had represented debtors and the total debtors as at the end of the year under review amounted to Rs. 3,154,106,357. Debtor balances are being continuously increased annually and debtor balances of Rs. 254,714,539 had remained for the period ranging from 02 to 19 years. No effective course of action had been taken to recover these long outstanding debtor balances.
- b. According to the register presented for audit, the number of debtors relating to the broadcasting charges including trade debtors with zero balances amounted to 2204. Of them the debts receivable from 866 debtors amounted to Rs. 2,159,744,355. Of them the confirmation letters had been sent to 298 debtors by the Commission but only 43 debtors had responded. The follow up action had not been taken to recover those debtor balances during the year under review.

2.2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of the following laws, rules, regulations etc., observed in audit are given below.

Reference to Laws, Rules Regulations and Management Decision	Non-compliance
a. Section 13(8) of the Finance Act, No 38 of 1971.	The report under section 13(7)(a) should be considered by the governing body of a public Corporation and after such consideration that body shall inform the steps that they propose to take with regard to the matters pointed out in the audit report within three months of the submission of the reports to the corporation. It had not been done in respect of the report for the year 2009.

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|---|--|
| b. Treasury Circular No. IAI/2002/02 dated 28 November 2002 | A register of fixed assets in respect of computers and accessories had not been maintained. |
| c. Financial Regulations (F.R.) | |
| i. F.R.371 (a) | The total amount of 82 sub- imprests given in Excess of the specified limit of Rs. 20,000 was Rs. 5,604,529. |
| ii. F.R.371 (c) | Even though the sub-imprests should be settled immediately after the completion of the purpose for which it was given a sum of Rs. 2,484,209 had not been settled for more than 01 to 03 months. |
| iii. F.R.110 | A register of Losses and Damages had not been maintained. |

3. Financial and Operating Review

3.1 Financial Review

3.1.1 Financial Results

According to the financial statements presented the operation of the Commission for the year under review had resulted in a surplus of Rs. 5,577,306,273 as compared with surplus of Rs. 5,633,977,707 for the proceeding year, thus indicating a decrease in financial results by Rs. 56,671,434. Increase in the provision for bad debts by Rs.137,097 million than the proceeding year had been the reason for increase in surplus.

3.1.2 Financial Administration

The following observations are made.

- a. A large amount of surplus money had been continuously kept in hand by the Commission. The minimum of Rs.216 million and a maximum of Rs. 2491 million had been regularly retained in the bank current accounts. Attention is drawn to interest these under utilised excess funds to make better contributions to the national economy.

- b. A sum of US\$ 420,000 deposited in a savings account of the NSB in the year 2003 had increased to US\$ 497,186 OR Rs. 54,881,244 by the end of the year under review but this money had not been utilized for the last 7 ½ years. Of that an exchange loss of Rs. 1,643,315 had incurred during the year 2010.
- c. In terms of the Gazette Notification (Extra Ordinary) No. 1386/24 of 31 March 2005, out of the Telecommunication Tax recovered from each operator 2/3 can be refunded as determined by the Commission for the development of Telecommunication Network in the areas where available or areas where such facilities are not in a satisfactory level. Nevertheless the Sri Lanka Telecom usually pays only 1/3 tax retaining 2/3 with it without ensuing that it engages in Telecommunication Network development projects. Accordingly the under paid tax by the Sri Lanka Telecom during the period 03 March 2003 to 31 December 2010 amounted to Rs. 6,671,610,884. Effective steps had not been taken by the Commission to recover this money.

3.2 Operating Review

3.2.1 Operating Inefficiencies

- a. In terms of Section 22(g) of Sri Lanka Telecommunication (Amendment) Act. No. 27 of 1996 every telecommunicator should pay cess for his license and the operating license fees in respect of the year specified for him before the 31st of January next year. However, the cess amounting to Rs. 190,801,708 payable by entities and the operating charge of Rs. 236,776,650 payable by 4 entities had been after a delay of 1 to 9 months and 3 to 9 months respectively. Even though it was stated in the license that an additional charge can be imposed on the delays, action had not been taken to determine and recover such a charge. However, the Director General of the Commission had stated in the reply letter to the 14(2)(c) draft sent to the Auditor General on 28 June 2011 that there is no such provision in the existing Act to recover an additional fine on account of delays or non-payment of operating license fees and cess and action will be taken in future to include a methodology in the Telecommunication Act to ascertain the legal power.

- b. A person who manufactures any telecommunication equipment for sale imports, sales, produces for sale, transfers, hires, leases, displays by operating maintenance or repairs / should obtain a license issued by the Commission under Section 21 of the Telecommunication Act. No.25 of the 1991 as amended by Act. No. 27 of 1996. Nevertheless, it was observed that businesses are operated in various places within the country without obtaining such a license. At a test check carried out in audit it was observed that there were 37 institutions who carry out businesses without such licenses. It was observed that the Commission has no such procedure to find the institution carry on business without a license and to recover the relevant charges.
- c. A Mitsubishi Jeep valued at Rs. 7,304,348 belonging to the Commission had been released to the Ministry of Posts and Telecommunication in the year 2005. This vehicle released contrary to Section 8.3.9 of the Guidelines on Good Governance No. PED/12 of 02 June 2003 could not be taken back by the Commission up to now.

3.2.2 Corporate Plan and the Action Plan

- a. In terms of Circular No. PED 47 of 18 December 2007 of the Department of Public Enterprises and Chapter 5 of the Guidelines on Good Governance a Detailed Corporate Plan should be prepared and submitted its copies to the Auditor General, Secretary to the Committee on Public Enterprises and the Secretary to the Director General of the Public Enterprises 15 days before the commencement of each financial year. This had not been complied with. Further, attention had not been drawn to prepare the Corporate Plan to identify the management responsibility clearly by indicating the significant features such as human resources administration, financial and supplies Divisions according to the existing Corporate Plan.
- b. An action Plan showing the targets to be achieved during the planned period had also not been prepared. Further, the existing action plan had not been updated. Thus, it could not be evaluated whether the targets to be achieved during the year under review had been achieved and however its financial and physical progress had been achieved.

3.2.3 Transactions of Contentious Nature

The following matters were observed.

- a. The allowance of unvalued leave amounting to Rs. 3,395,212 and the reimbursement of 2/3rd of housing loan interests amounting to Rs. 3,669,585 had been paid during the year under review without the approval of the Treasury.
- b. As stated in the letter No. NSCC/3/ABC/24 dated 13 June 2007 of the National Salaries and Cadre Commission, the relevant institutions should not pay 10% of the house rent to their employees. However, a sum of Rs. 5,290,865 had been paid by the Commission to its employees as house rent, contrary to that provision.

3.2.4 Idle Assets

Computers and Technical instruments costing Rs. 30,484,695 and fully depreciated had not been utilized. Action had not been taken to reuse or to dispose after being tested.

3.2.5 Budgetary Control

According to the financial statements presented, in comparing with the budgeted figures, significant variances were observed and as such the Budget had not been made use of as an effective instrument of management control few expenses are given below.

Item	Budgeted Figures	Actual Figures	Difference
Establishment and Administration Expenses	141,532,930	287,338,583	(145,805,633)
Provision for doubtful debts	104,500	158,553,234	(153,613,234)
Payment to Consolidated Fund	3,200,000,000	3,800,000,000	(600,000,000)

Investments	21,104,615,099	7,749,665,953	(13,354,949,146)
Telecommunication			
Charges Payable		118,458,551	(118,458,551)
International			
Telecommunication			
Operators Levy Payable	20,742,422,424		20,742,422,424

Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Commission from time to time. Special attention is needed in respect of the following areas of control.

- a. Budget
- b. Corporate Plan
- c. Action Plan
- d. Investments of Surplus Funds
- e. Debtors

H.A.S Samaraweera

Acting Auditor General

Notes

Notes

www.trc.gov.lk



Telecommunications
Regulatory Commission
of Sri Lanka

No 276 Elvitigala Mawatha Colombo 8 Sri Lanka
Tel +9411 2689345 / 2689351 / 2689352
Fax +9411 2689341 Email dgtsl@trc.gov.lk

