Telecommunications Regulatory Commission of Sri Lanka - 2015

The audit of Financial Statements of the Telecommunications Regulatory Commission of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the profits and losses and comprehensive income statement, the statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 22(a)(2) of the Sri Lanka Telecommunications (Amendment) Act, No. 27 of 1996. 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.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. **Financial Statements**

2.1 **Qualified Opinion**

In my opinion, except of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the Telecommunications Regulatory Commission of Sri Lanka as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 **Comments on Financial Statements.**

2.2.1 **Sri Lanka Accounting Standards**

Non-compliances with the following Sri Lanka Accounting Standards were observed during the course of audit.

(a.) **Sri Lanka Financial Reporting Standard 13**

Although, the Commission had shown the cost of Property, Plant, and Equipment amounting to Rs. 13,025,534,171 in the financial statements, the fair value had not been calculated and shown in the financial statements.

(b.) **Sri Lanka Accounting Standard 01**

Even though action should be taken to show the expenses incurred by an entity in the financial statements according to the nature of expenses or the relevance to the functions of the institution, a sum of Rs. 44,636,888 incurred on activities extraneous to the functions of the Commission had been shown in the financial statements as regulatory expenses.

(c.) **Sri Lanka Accounting Standard 16**

The following observations are made.

(i) An area of about 50 per cent of a land 112 acres, 01 rood, and 10.5 perches in extent owned by the Commission, had been acquired by the Divisional Secretariat, Katana, and the value of the entire land had been shown as Rs. 45 million under the Property, Plant, and Equipment. Action should have been taken to revalue the assets and account the fair value, but, this had been shown by a note to accounts during the past 13 years.

(ii) The fixed assets valued at Rs. 465,580,673 and used in the operations despite being fully depreciated as at 31 December of the year under review, had not been disclosed in the financial statements.

(d.) **Sri Lanka Accounting Standard 18**

As operator licenses had been issued once a 10 and 05 years, the renewal fee of licenses had been recognized as an income of the year of renewal. However, the accounting policy followed in that connection, had not been disclosed in the financial statements. Accordingly, the operator license fee amounting to Rs. 261,816,469 in the preceding year had varied up to Rs. 107,708,483 during the year under review.

(e.) **<u>Sri Lanka Accounting Standard 23</u>**

A loan amounting to US $ 88.655 million had been obtained in the year 2012 for the construction of Colombo Lotus Tower, and a sum of US $ 38.28 million of that had been spent up to the end of the year under review. Although, a borrowing cost of Rs. 1,664 million had been incurred on the said loan up to the end of the year under review, the qualified amount of borrowing cost that had been capitalized as per the Standard, and the capitalization rate, had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

(a.) As a frequency license income of Rs. 14,886,858 relating to the preceding year, but invoiced in the year under review had been accounted as an income of the year under review, the frequency license income for the year under review had been overstated by that amount in the financial statements.

(b.) The depreciation on fixed assets for the year under review had been understated by a sum of Rs. 782,882 due to computational errors.

(c.) Seven vehicles had been sold during the year under review, and due to errors in computing the profit arisen from the sale of those vehicles, a sum of Rs. 335,428 had been overstated in the accounts. Furthermore, the market price of a vehicle amounting to Rs. 3,500,000 had been eliminated from the accounts in lieu of its cost, and the cost of the said vehicle had remained unidentifiable to the Commission. Accordingly, the loss or the profit resulted from the removal of the vehicle could not be identified.

(d.) The Super Gain Tax paid in terms of Finance Act, No. 10 of 2015 should have been adjusted to the opening retained earning balance in the statement of changes in equity for the year under review. However, the Commission had deducted the tax amounting to Rs. 464,030,556 from the pre-tax profit of the current year. Accordingly, the after-tax profit of the year under review had been understated by a sum of Rs. 464,030,556 in the financial statements. Similarly, the disclosures relating to the Super Gain Tax had not been revealed in the Financial Statements.

(e.) As the balance of the RFC account amounting to Rs. 80,133,171 had been shown as tax-exempt income in lieu of the interest income of the RFC account amounting to Rs. 1,622,984 in computing the income tax liability for the year, the taxable income had been under calculated by a sum of Rs. 78,510,187. Accordingly, the income tax expense for the year under review had been understated by a sum of Rs. 21,982,852 in the financial statements.

(f.) Expenses amounting to Rs. 7,268,291 payable by the end of the year under review including the expenses incurred on the consultancy services obtained in connection with the construction of the Lotus Tower project, had not been accounted as accrued expenses. The gratuity of Rs. 444,812 to be paid to an officer scheduled to retire in the year 2016, had not been recognized as a current liability.

(g.) Of a sum of Rs. 50 million paid to the Army Welfare Fund in the preceding year, the sum of Rs. 27,722,963 received by the Commission during the year under review, had been credited to the Economic and Social Responsibilities Expenses Account. Hence, the expenses on the economic and social responsibilities for the year under review had been understated by that amount.

(h.) Operator license fees of Rs. 1,305,544,313 recoverable from 3 telecommunication operators had not been recovered, whereas the balance recoverable from an operator had not been computed. The operator license fees receivable as at 31 December of the year under review had not been identified and included in the financial statements.

2.2.3 Lack of Evidence for Audit

Although Rs. 141,398,308 of VAT had been shown in the opening receivable accounts of the year under review, documentary evidence had not been made available to audit to verify the said balance.

2.3 Accounts Receivable and Payable

The following observations are made.

(a.) Although a sum of Rs. 371,620,005 included in the debtor balance of the Commission by the end of the year under review, had been classified as outstanding loan balances of more than 02 years, balances that remained outstanding over a period of more than 20 years had also been included therein.

(b.) A fee of Rs. 119,920,691 had remained recoverable since the year 1981 for the frequencies provided for the Sri Lanka Broadcasting Corporation, and frequencies that had not been invoiced, had existed from the year 1998 up to 2015. Invoices had not been issued with respect to 10 frequencies during the year under review.

(c.) The employee loan balance that remained in arrears over a period of more than 02 years amounted to Rs. 2,663,325.

(d.) In accordance with the general instructions on the registration of institutions or persons using the frequencies, a sum of Rs. 8,889,143 could not be recovered from a Company due to failure in collecting the certified copies of Memorandum of Association and the Articles of Association.

(e.) Action had not been taken to recover a sum of Rs. 83,477,885 from the operators who had been using the antenna and the transmission tower in *Kokavil* from the year 2012 up to 31 December of the year under review.

(f.) According to the schedule of debtor balances, the number of debtors with negative balances amounting to Rs. 1,730,775, was 462. Action had not been taken either to settle or write off the said negative balance. Instead, the balance had continuously been shown in the accounts over a long period of time.

(g.) Of the balance receivable by the Commission as at 31 December of the year under review, letters of confirmation of balances totalling Rs. 2,024,252,991 had been sent to 16 debtors with balances over Rs. 1 million. However, 11 debtors totalling Rs.336,260,623 had not confirmed their balances.

(h.) The tax amounting to Rs. 250,000,000 imposed on the mobile network operators and recoverable before 15 November of the year under review in terms of Part IV of the Financial Act, No. 10 of 2015, had not been paid to the Commission by an operator.

2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Non-compliance with the following laws, rules, regulations, etc. were observed during the course of audit.

	Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a.)	Section 11 of the Finance Act, No. 38 of 1971, and Public Finance Circular, No. PF/PE/09 dated 27 June 2000.	A sum of Rs. 21,900,000,000 had been invested in fixed deposits and Treasury bills by the Commission during the year under review without the approval of the Treasury.
(b.)	Parts V and VII of the Finance Act, No. 10 of 2015.	Although, the Commission is exposed for the recovery of the Satellite Location Tax and the Dedicated Sports Channel Tax, to be credited to the Consolidated Fund after being recovered, action had not been taken to recover those taxes.
(c.)	Financial Regulation 757(2) of the Democratic Socialist Republic of Sri Lanka	A Board of Survey had not been conducted for the year under review, and the reports had not been furnished to the Auditor General.
(d.)	Public Enterprises Circular, No. PE 56 dated 27 January 2011.	The funds that had exceeded the working capital requirements of the Commission for a period of 06 months, should have been remitted to the Consolidated Fund. However, the Commission had not done so.
(e.)	Section 2.3 of Public Enterprises Circular, No. 3/2015 dated 17 June 2015.	Fifty per cent of the specified allowance should be paid to the Chairman of the Commission as per the provisions of the Circulars. Contrary to that the total allowance of Rs. 100,000 had been paid with effect from July of the year under review.

(f.)	Treasury Circular, No. IAI/2002/02 dated 28 November 2002.	A Fixed Assets Register had not been separately maintained for computers and computer accessories.
(g.)	Circular letter dated 19 February 1990 of the Secretary to the Ministry of Policy Development and Implementation	All services relating to the legal affairs of Public Corporations, Government Institutions, Business Undertakings and people's Companies should be done by the Attorney General as decided by the Cabinet of Ministers. Contrary to that a sum of Rs. 4,105,707 had been paid to persons and private institutions by the Commission during the year under review for obtaining legal services.
(h.)	Public Administration Circular No. 15/2007 dated 12 June 2007 and Sub-section 7.4.1 of Chapter XXIV of the Establishments Code.	(I) Despite being informed that vehicle loans should be paid through commercial banks, vehicle loans totalling Rs. 18,195,250 had been paid to 11 officers during the year under review from the funds of the Commission based on the internal Circular, No. TRC/04/12 dated 14 August 2013. (II) Without consulting the Treasury on the interest recoverable from vehicle loans, the Commission had recovered only an annual interest of 4.2 per cent as per the provisions of the said Circular.
(i.)	Public Enterprises Circular, No. PED/27 dated 27 January 2005.	The draft annual report had not been furnished together with the financial statements.
(j.)	Section 9.14.2 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003	Recruitments had been made without obtaining the approval of the Secretary to the Treasury through the Department of Public Enterprises for the scheme of recruitment prepared on the approval of the Commission for recruiting officers and employees to the Commission.
(k.)	Paragraph 04 of the Ministry of Finance and Planning Circular, No. BD/CPB/1/1/2012 dated 30 December 2011	Even though the maximum distress loan payable to an employee had been limited to Rs. 250,000, a sum of Rs.997,437 had been paid in excess of that limit in 10 instances in accordance with the Internal Circular, No. TRC/04/12.

2.5 Transactions not supported by Adequate Authority

The following observations are made.

(a.) A sum totalling Rs. 35,926,229 had been paid to the officers of the Commission during the year under review as attendance allowance, bonus, communication allowance, and house rent allowance without the approval of the Treasury and based solely on the decisions taken by the Commission.

(b.) The PAYE tax should be remitted to the Department of Inland Revenue after being deducted from the salaries of the relevant officers in terms of Inland Revenue Act, No. 10 of 2006 and its amendments. Contrary to that, a total sum of Rs. 9,039,777 had been remitted from the funds of the Commission, during the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the pretax profit of the Commission for the year under review amounted to Rs. 47,593,376,236 as compared with the corresponding pretax profit of Rs. 46,266,149,704 for the preceding year, thus indicating an improvement of Rs. 1,327,226,532 in the financial result of the year under review. The increase in the income from the telecommunications tax and mobile network operators' tax by Rs. 3,054,219,871, and the decrease in the regulatory expenses by Rs. 917,050,977, despite the decrease in the income from the license fee by Rs. 2,482,599,329, had mainly attributed to the improvement of the financial result.

3.2 Contribution

Although the increase in the contribution for the year under review amounted to Rs.1,388,735,990 as compared with the preceding year, the increase in the contribution for the year under review amounted to Rs. 138,735,990 after removal of the effect of mobile network operators tax amounting to Rs. 1,250,000,000 that had been added in the year under review in terms of Finance Act, No. 10 of 2015. It was further observed that the contribution for the year under review had decreased by Rs. 577,488,848 when the effect of an expense amounting to Rs.716,224,838 that had been irrelevant to the operations of the preceding year was removed as such an expense had not incurred in the year under review.

3.3 Analytical Financial Review

Significant variances were observed between of the income and expenditure of the Commission as compared with that of the preceding year.

(a.) As the investments in fixed deposits made during the year under review had decreased from Rs. 74,106,362,761 to Rs. 33,250,000,000, and the interest rate on the fixed deposits had declined, the interest income on fixed deposits had decreased by 74 per cent.

(b.) An income of Rs. 1,250,000,000 had been received during the year under review as a new tax had been levied on the mobile network operators in terms of Finance Act, No. 10 of 2015.

(c.) Expenses contrary to the objectives of the Commission had been incurred in the preceding years, and those expenses had been shown as economic and social responsibilities of the Commission. However, such expenses had decreased by 90 per cent during the year under review.

3.4 Legal Proceedings Instituted against the Commission

Fifteen legal cases had been filed against the Commission by external institutions and persons, and employees of the Commission. Two external institutions of them had claimed compensation totalling Rs. 47.346 million from the Commission in connection with the non-implementation of the frequency project, and breach of contract agreement.

4. Operating Review

4.1 Performance

The following observations are made.

(a.) The main objectives of the Commission include: strengthening of regulatory process, protection of public interest, and promoting the sustainable development of the telecommunication industry in response to the challenges of the increasingly competitive market. An Action Plan had not been prepared for the year under review with emphasis on the functions required for achieving those objectives. Hence, the planning of objectives of the Commission and the progress in achieving them could not be examined.

(b.) Although it is one of the objectives of the Commission to ensure the proper functioning of the telecommunications network in different regions of Sri Lanka, disturbances in the frequencies being in use were revealed. According to the information of the Commission, the existing network is older than 17 years, but the installation of a new system by replacing the older one had not been done even during the year under review.

(c.) Although a company had informed by the letter dated 13 August 2014 that the company no more used the frequency band 2430 – 2483.5 MHz, the Commission had not taken action to cancel the utilization of the said frequencies.

(d.) The Commission had established Fixed and Mobile Monitoring Stations. However, in instances where frequency fees were not paid by the parties using the frequencies, the Commission had not systematically supervised whether the frequencies allocated to them were used or not. I was informed by the Director General that it was impossible to monitor the frequencies island-wide as there had been only 02 officers for monitoring the frequencies.

4.2 Operating Activities

The following observations are made.

(a.) Payments of cess had not been made by an institution for the period from October to December of the year under review in accordance with Section 22 (g) of the Sri Lanka Telecommunications Act, and the notification published in the Gazette Extra ordinary No. 1686/4 dated 27 December 2010 of the Democratic Socialist Republic of Sri Lanka. Nevertheless, due to lack of legal provisions in the Act to recover the defaulted taxes, the taxes that had been defaulted could not be recovered.
Even though the Director General informed me from time to time since the year 2011 that a methodology for obtaining the legal authority to impose a fine on the license holders who defaulted paying the cess or delayed making payments would be included in the Telecommunications Act, such action had not been taken up to date.

(b.) The operators should pay the fee within 02 weeks from the date of issuing the invoice for the frequency fee. However, payments had been made after a delay ranging from 07 days to 04 months in respect of 12 invoices totalling Rs. 1,048,313,680 issued during the year under review. As a proper methodology had not been introduced to recover the frequency fees, recovery of fees defaulted or delayed, had failed.

(c.) In paying the Employee Provident Funds and Employee Trust Funds totalling Rs. 14,909,235 that had been computed on the cost of living allowance for the period from February 2006 to February 2013, the contribution from the employees, amounting to Rs. 5,324,727 had also to be paid by the Commission.

(d.) The telecommunication levies should be paid to the Commission before the 15th day of the ensuing month in accordance with the Telecommunication Levy Act, No. 21 of 2011. However, 03 institutions liable for paying taxes, had defaulted on the payment of levies during the period from 2011 to 2015. Furthermore, legal action had not been taken against 02 of the said institutions in terms of Sections 6(3), (4), (5), and (6) of the Act.

(e.) According to the monthly statements of the operators, telecommunication levy and the cess are charged monthly. The Commission, through the Chartered Accountant, had introduced a methodology to verify the amount of taxes relating to the year by using a reconciliation statement presented in respect of those two types of taxes after the end of the financial year. Nevertheless, for the year 2014, and the year under review, those reconciliation statements had not been presented even as at 06 June 2016 by 06 and 14 institutions respectively.

4.3 Transactions of Contentious Nature

The following observations are made.

(a.) Following a decision by the Commission, a building at the *Longdon Place* had been obtained on rent basis at a monthly rental of Rs. 300,000 for a duration of one year with effect from November 2014 without calling for bids, contrary to F.R 835(2)(c) and in terms of the Presidential Secretariat Circular, No. CA/1/17/1 dated 04 May 2010. The building had remained idle without being used for the intended purpose, and the building had been handed over back after a period of 07 months. The owner of the building had been paid a total of Rs. 3,150,000 including key-money amounting to Rs.1,800,000, and a sum totalling Rs. 1,350,000 at Rs. 225,000 per month for the period from November 2014 to April 2015. A sum of Rs. 3,701,942 for water/electricity, security expenses, repairs, and miscellaneous expenses, and a sum of Rs. 8,426,486 for purchasing computers and air conditioners, had also been incurred during the same period. The sum of Rs. 1,350,000 paid as rentals during the period of lease had been an un-economic, expense whereas action had not been taken even as at 27 June 2016 to recover the sum of Rs. 1.8 million paid as retention money.

(b.) For the production of a film and a tele drama, an activity that was unlikely to be in line with the achievement of the objectives of the Commission, the Commission had agreed to pay sums of Rs. 64,383,813, and Rs. 7,956,000 respectively on the approval of the Commission. For the production of the film and the tele drama, sums of Rs. 32,191,906 and Rs. 7,160,400 had respectively had been paid to the producers by considering it as a social responsibility expenditure.

4.4 Uneconomic Transactions

A sum of Rs. 4,045,841 had been incurred on accommodation, foods, and miscellaneous expenses in respect of the get-together and the trip organized in the year 2015 for the employees and their families.

4.5 Contract Process

4.5.1 Construction of the Lotus Tower

The following observations are made.

(a.) Progress of the Construction

According to the contract agreement for the said construction, the construction had been scheduled to complete within a period of 912 days by commencing on 12 November 2012 and completing by 12 May 2015. However, only the concrete structure had been completed by that date. Although the approval had been granted to extend the period of contract up to October 2017, following a decision taken by the Commission on 28 August 2015, Cabinet approval had not been obtained in that connection and the Steering Committee of the project had not met until 31 December after 02 January 2015.

(b.) Installation of Elevator and Escalator

(i) According to the Critical Path furnished together with the contract agreement, the installation of mechanical, electrical and special equipment should have been completed within a period of 08 months by commencing on July 2014 and completing by March 2015. However, action had not been taken to install any of the equipment.

(ii) The technical and financial evaluation report had been furnished to the Commission for approval on 13 October 2014 by the Project Consultancy Unit for the installation of elevator and the escalator. However, the approval had been granted only on 29 March 2016. An additional expenditure of US $ 1,757,898 had also been approved therein.

(iii) Although the audit had been informed by the Telecommunications Regulatory Commission that a committee had been appointed to look into issues relating to the procurement of the installation of elevators, the report of the committee had not been furnished to the audit. Instead, only the proposals included therein had been presented to the audit in writing.

(c.) The Feasibility Study of the Project

According to the loan agreement entered in to between the Telecommunications Regulatory Commission of Sri Lanka and the Export-Import Bank of China on 17 September 2012, the interest rate on the loan should be computed by adding the 4 per cent margin of fixed interest to the Intercontinental Exchange London Interbank Offered Rate. (LIBOR) However, the borrowing cost shown in the feasibility report had been computed by considering the margin of fixed interest as 3.5 per cent, and due to significant variances such as, understating the borrowing cost of the project by a sum of Rs.265 million and the insurance cost of the project by a sum of Rs. 682 million, and the present value of the budgeted income of the project had been calculated with the discount rate of 4 per cent in lieu of the capital cost (Discount Rate) of 4.32 per cent, it was observed that the assessed payback period of the project could vary.

4.5.2 Construction of the TRC Media Center at IT Park in *Hambanthota*

According to the contract agreement for the construction of TRC Media Center valued at Rs. 2,663 million, the construction should have been commenced on 10 August 2014 and completed by July 2016. The amount of Rs. 508 million paid for the project as at 31 December 2015 represented 19 of the contract value. Despite being reported that the scope of the project had to be limited due to inadequacy of the infrastructure, the project had been abandoned by 23 June 2016.

4.6 Personnel Administration

The following observations are made.

(a.) Even though the approved cadre of the Commission as at 31 December of the year under review was 291, the actual cadre stood at 218. There were 89 vacancies and the excess, cadre was 16.

(b.) Sixteen persons had been recruited for 06 posts external to the approved cadre without obtaining the approval of the Department of Management Services.

(c.) A monthly remuneration of Rs. 719,000 had been paid by appointing 05 consultants without Cabinet approval, whereas duty lists had not been issued to 02 of them.

(d.) The Director General had informed that the dearth of employees of the Commission had affected the following matters.

(i) Due to dearth of officers trained in the management of frequencies, regulations for charging fees on frequencies could not be introduced.

(ii) As only 02 officers had been assigned to monitor frequencies , there had been no possibility to monitor frequencies island wide and,

(iii) Due to dearth of officers with expertise in radio technology, the procurement of a new system for monitoring frequencies by replacing the existing one that had been 17 years old, had failed.

5. Accountability and Good Governance

5.1 Tabling of Annual Reports

The Annual Report for the year 2014 had not been tabled in Parliament even by 30 May 2016.

5.2 Internal Audit

The following observations are made.

(a.) Although, approval had been granted for a Chief Internal Auditor and 03 Assistant Auditors for the Internal Audit Division of the Commission, only the Chief Internal Auditor and an Assistant Auditor had been appointed by 31 December of the year under review.

(b.) The Internal Audit Division had not conducted audits on significant areas. The project implemented by the Commission for the construction of Lotus Tower, and the construction of TRC Media Center at IT Park in *Hambanthota* , had not been audited.

5.3 Budgetary Control

Variances ranging from 10 per cent to 46 per cent were observed between the budgeted values and the actuals of the budget approved by the Commission on 10 March 2015. Furthermore, a sum of Rs. 9,309,870,507 had been incurred on 10 Objects without being included in the budget. As such, it was observed that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed were reported to the Chairman of the Commission from time to time. Special attention is needed in respect of the following areas of control.

Area of Systems and Controls	Observations
(a) Budgetary Control	The fact that the budget had not been made use of as an effective instrument of management control
(b) Control of Loans	Existence of loan balances that had remained outstanding for over a long period of time, and recovery of loans remained at a weak level.
(c) Revenue Control	Failure to obtain approval for sufficient legal provisions on the collection of revenue.
(d) Investments	Investing in fixed deposits and Treasury bills without approval of the Treasury.
(e) Payment of Allowances	Payment of allowances on the decisions of the Commission for attendance, bonus, communication and house rents without approval of the Treasury.
(f) Contract Administration	Delay in the construction of Lotus Tower. Abandonment of project for the construction of TRC Media Center at IT Park in *Hambanthota*