

## **Rewards and Incentive Fund of the Department of Motor Traffic – 2019**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Rewards and Incentive Fund of the Department of Motor Traffic for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 1.5 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

#### 1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the

Fund and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

**1.5 Financial Statements**  
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**1.5.1 Internal Control over the Preparation of Financial Statements**  
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The Fund is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

**1.5.2 Accounting Deficiencies**  
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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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The interest receivable as at 31 December 2019 relating to a total sum of Rs.27 million invested in fixed deposits in the years 2015 and 2019 on the basis of renewing quarterly, had not been identified and brought to account.	It is agreed with matters indicated. Necessary action will be taken so as to avoid such shortcomings in future.	Taking action in compliance with Generally Accepted Accounting Principles.

### 1.5.3 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Non-reconciliations amounting to Rs.9,690,015 were observed between the balances remained as at 31 December 2019 relating to 04 Items of Accounts according to financial statements and balances remained in Ledger Accounts as at that date.	It is agreed with matters indicated. Necessary action will be taken so as to avoid such shortcomings in future.	Maintenance of accounts so as to reconcile values indicated in financial statements with values indicated in source documents.

### 1.5.4 Lack of Documentary Evidence for Audit

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Even though the Governing Board of the Incentive Fund had obtained allowances since the inception of the Fund, the legal approval thereon had not been made available to Audit.	Payments for allowances are made on the approval of the Governing Board.	Letters of Appointment of members of the Governing Board should be properly made available to Audit.

### 1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

<b>Reference to Laws, Rules, Regulations etc</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka  Financial Regulation 387	The Paying Officer should always ensure that the bank balance is adequate to meet all his payments	The officers have been given instructions to take action so as to avoid such shortcomings in the future.	Taking action in compliance with laws and rules.

made by cheque. However, the balance of the cash book as at 31 December 2019 had been a credit balance of Rs.179,777 due to cheques drawn exceeding the cash balance remained in the Bank Current Account of the Fund.

(b) Public Finance  
Circular  
No.PF/423 of 22  
December 2006

Paragraph 3.2(b)	Measures had not been taken to transfer the value of Treasury bills and fixed deposits totalling Rs.38,335,003 to the Consolidated Fund on 31 December 2019. Even though a monthly surplus ranging from Rs.22 million to Rs.58 million had remained in the Savings Account, measures had not been taken to credit the said balance as well to the Consolidated Fund.	According to the Order of the Minister, 5 per cent of the entire fund should be retained in the Fund. The said funds are invested by transferring to a Deposit Account.	In case of a surplus, action should be taken by looking for the possibility of crediting such surplus to the Consolidated Fund as per the Circular.
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**2. Financial Review**

**2.1 Financial Results**

The operations for the year under review was a surplus of Rs.5,082,958 as compared with the corresponding surplus of Rs.3,269,741 for the preceding year, thus observing an improvement of Rs.1,813,217 in the financial result. Even though the annual income had decreased by Rs.11,352,744, the decrease by Rs.12,715,279 in the expenditure on operations by a percentage more than that had been the main reason for this improvement.

**3. Operating Review**

**3.1 Operating Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>In terms of Regulation 03(1) of the Motor Traffic Regulations (Rewards and Incentive Fund) No.04 of 2011, 04 activities which qualify for rewards and incentive, had been indicated. However, except for the payment for administrative expenses of 08 per cent out of the sum allocated for rewards and incentive, the remaining 92 per cent had been divided as incentive among the staff. If a procedure for awarding rewards is implemented as follows, it was observed that there was a possibility of revealing fabrications and changes etc. made unlawfully to motor vehicles.</p> <p>(a) Award of rewards to the informants who supply information on persons who involve in fabricating, manufacturing, assembling, innovating, adapting, modifying or changing the condition of the motor vehicles without obtaining the approval from the Commissioner General of the Motor Traffic.</p>	<p>It is agreed with observations.</p>	<p>More attention should be paid to prime objectives of the Fund.</p>

(b) Award of rewards to persons who supply information for identifying certain wrongful acts or persons who involve in revealing such wrongful acts.

(c) Award of rewards not exceeding Rs.50,000 per year for activities of the staff of the Department, for which commendable appreciation or special appreciation is required.

**3.2 Transactions of Contentious Nature**  
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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Even though the sources by which funds are raised for incentive are stipulated in Section 213 d (2) of the Motor Traffic Act, contrary to that, interests on deposits of Rs.7,272,842 collected during the year under review had been utilized for payment of incentive.	Interests on deposits have not been utilized for the payment of incentive since the year 2019.	Taking action in compliance with prevailing laws and rules.

**4. Accountability and Good Governance**  
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**4.1 Annual Action Plan**  
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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
An Action Plan for the year under review had been prepared. However, according to Motor Vehicle (Rewards and Incentive Fund) Regulations No. 04 of 2011, plans had not been prepared for awarding rewards to parties who supply information on manufacturing and changing the condition of motor vehicles unlawfully.	It is agreed with observations.	Plans should be prepared so as to achieve objectives.

## 4.2 Budgetary Control

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Even though the actual expenses on administration of 02 preceding years had ranged between Rs.447,000 and Rs.562,000, the expenditure on administration of the year 2019 had been estimated as Rs.1,157,000. As such, overprovision made therefor had been a material value of 57 per cent as compared with the estimated value.	It is agreed with observations.	Determination of budget figures in a realistic manner.
(b) Even though provision of Rs.100,000 had been made by the Annual Budget for sports and commendable appreciation, no expenditure whatsoever had been incurred therefor during the year. Moreover, no provision whatsoever had been made during the year under review for awarding rewards which is the main objective of granting incentive.	It is agreed with observations.	Determination of budget figures in a realistic manner.
(c) Estimates for interests on bank deposits and fixed deposits for which estimates can be prepared accurately, had been understated by 92 per cent and 45 per cent respectively.	It is agreed with observations.	Determination of budget figures in a realistic manner.