

Vehicular Emission Test Trust – 2019

1.1 Qualified Opinion

The audit of the financial statements of the Vehicular Emission Test Trust 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

My opinion is qualified 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

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 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 Responsibility for the Audit of the Financial Statements)

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 auditor's 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, misrepresentations, 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 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 auditor's 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 auditor's 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

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are 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

Audit Observation	Comments of the Management	Recommendation
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Provision for accumulated depreciations on motor vehicles and emission equipment had been understated by Rs.3,332,981 and overstated by Rs.388,332 in the accounts.	It was noted to avoid such accounting deficiencies in the future.	Accounts balances should be stated correctly.

1.5.3 Unexplained Differences

Audit Observation	Comments of the Management	Recommendation
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A difference of Rs.3,961,935 was observed between financial statements and salary sheets in	This difference was due to stating the other allowances paid together with the salary under the other allowances.	Accounts books should be kept so as to reconcile the values included in the

relation to the salaries paid to the staff during the year under review.

financial statements with the relevant notes.

1.5.4 Going Concern of the Fund

Audit Observation	Comments of the Management	Recommendation
<p>In terms of Public Finance Circular No.02/2018 dated 18 August 2018 of the Secretary to the Treasury, it was confirmed that it had been decided to close down the Vehicular Emission Test Trust Fund on the Cabinet Approval. However, action had not been taken according to the Circular even by 15 May 2020 to appoint a Liquidator and to settle liabilities from assets and to credit the remaining to the Consolidated Fund. The value of deposits of the Fund alone had been Rs.1,138 million and the Secretary to the Treasury was one of the two parties of this Fund established under a Deed of Trust. In terms of paragraph 11 (a) of the Deed of Trust by which the Fund was established, this Fund is abolished on the declaration of the Secretary to the Treasury. Accordingly, one party has already withdrawn from the relevant agreement in terms of the said circular issued by the Secretary to the Treasury. As such, the legality of going concern of the Fund was problematic.</p>	<p>Not replied.</p>	<p>Necessary action should be taken within the relevant legal frame work.</p>

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
<p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p>	<p>Financial Regulation 387</p>	<p>The Paying Officer should always ensure that the bank balance is adequate</p>	<p>Since excess cash of the current account is daily transferred to Action should be taken according to</p>

to meet all his payments made by cheques. Nevertheless, due to drawing cheques in excess of the cash balance available in the current account of the Fund, the overdraft of the cash book as at 31 December 2019 stood at Rs.1,231,069. the savings account, there is a credit balance. Financial Regulations.

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

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- (i) Paragraph 03.2(b) Although there was a monthly balance ranging from Rs.247 million to Rs.1,138 million in the Savings Deposit Account during the year under review, no action had been taken to credit that surplus balance to the Consolidated Fund. Surplus monies are transferred to the Consolidated Fund only under the approval of the Board of Governance. Surplus monies should be credited to the Consolidated Fund.
- (ii) Paragraph 4.3 The Performance Report which should be presented to the Auditor General with copies to the Director General of Public Finance within 02 months from the close of the year under review had not been so presented. Action will be taken to submit the report from the year 2020 onwards. Measures should be taken in accordance with the Circular.
- (iii) Paragraph 4.2 (c) No quarterly reports whatsoever on the progress of the bank accounts to be presented to the Director General of Public Finance had been presented. Action will be taken to submit the report from the year 2020 onwards. Measures should be taken in accordance with the Circular.

2. Financial Review

2.1 Financial Results

The operations of the Fund had resulted in a surplus of Rs.261,872,618 for the year under review as compared with the corresponding surplus of Rs.305,892,107 for the preceding year, thus indicating a deterioration of Rs.44,019,489 in the financial result. The decrease in the income of the year by Rs.32,835,020 and increase in the maintenance expenditure of the year by Rs.27,205,881 had mainly attributed to this deterioration.

3. Operating Review

3.1 Performance

3.2.1 Circulating Air Quality Measuring Mobile Unit

The air quality management is a prime objective of the Emissions Trust Fund. In order to achieve this objective, a mobile vehicle with a circulating air quality measuring device had been purchased in June 2013 at a cost of Rs.30,821,892 and handed over to the Central Environmental Authority. According to the agreements reached, the Authority had been entrusted with the task of providing air circulation data in various locations in the island within a period of 5 years to the Fund. The following matters were observed in this regard.

Audit Observation	Comments of the Management	Recommendation
(a) Even though the relevant agreement had come to end in June 2018, action had not been taken to acquire the mobile vehicle to the Emission Trust or extend the period of agreement or to enter into a new agreement even by 31 December 2019.	Replies had not been given relating to the observations.	Action should be taken in accordance with the generally accepted legal framework.
(b) Plans had been drawn to take measurement using this equipment in 15 selected places at one week per location, to carry out such testing twice a year and to provide such data to the Fund. An expenditure of Rs.28,992,552 incurred for this purpose from the year 2013 to 2018 had been reimbursed to the Authority. However, only the data pertaining to 12 weeks from the date of	The Central Environmental Authority had conducted several programmes at our request.	Public finance should be used so as to achieve maximum performance.

handing over that equipment had been received up to date.

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| <p>(c) A similar equipment had been purchased at a cost of Rs.47,247,000 in the year 2018 as per the Procurement Committee decision reached in 2014 and handed over to the Central Environmental Authority. The Authority had handed over the same to the National Building and Research Organization (NBRO) in April 2019 without the approval of the Fund. As the said equipment is an asset owned by the Fund, an agreement had not been reached with the National Building and Research Organization with regard to its use, maintenance and obtaining the generated data to the Emission Trust Fund even up to 31 December 2019</p> | <p>It has been decided to take action in more responsible manner in the future.</p> | <p>Public finance should be used so as to achieve maximum performance.</p> |
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3.2.2 Purchase of Opacity Meters and Gas Analyzers

The following metals were observed regarding purchase of 43 opacity meters and 32 gas analyzers to test petrol and diesel engines during the period from 2012 to 2018.

Audit Observation	Comments of the Management	Recommendation
<p>(a) The following matters were observed regarding the provision of testing equipment to the district offices including the head office.</p>		
<p>(i) Even though the number of vehicles that had failed in emission test conducted during 03 years from the year 2015 was 2576, it was not possible to substantiate as to how many of those vehicles have been re-tested.</p>	<p>Replies had not been given relating to the observations.</p>	<p>Details of the work done should be documented.</p>

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| (ii) | Instead of devising a strategy to carry out re-testing of those vehicles at the nearest emission test centre under the supervision of a Motor Vehicle Inspector in the relevant district office, the providing of equipment to the district officers at a cost of rupees 50,691,264 was observed as an uneconomic transaction. | It is practically not possible to carry out tests by taking them to the emission test centres. | Public finance should be used so as to achieve maximum performance. |
| (b) | In order to commence the tests at 9 depots, Opacity Meters has been given to the Sri Lanka Transport Board in the year 2018 at a cost of Rs. 21,937,500. Nevertheless due to not constructing the necessary places to install such equipment, abandonment of constructions and not commencing tests at the 02 constructed centres, those equipment remained unused for more than one year from the date of purchase. | Not replied | Public finance should be used so as to achieve maximum performance. |
| (c) | Even though measurement units containing opacity meters and a gas analyzers had been provided to the Department of Measurement Unit, Standard and Services and the Centre Environment Authority, the fund was unaware as to whether they were being effectively used. Further, although a couple of equipment had been provided to the Ministry of Environment for a short-term need on payment of Rs.2,203,968, possibility of granting a such equipment from the equipment reserve of the Fund had not been taken into account. | These instruments have been provided to the Measurement Units and Standards Services Department as specimens. The equipment provided to the Minister of Environment have been taken back. | Public finance should be used so as to achieve maximum performance. |

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| (d) | Seven inactive gas analyzers had not yet been repaired and retained in the head office and three analyzers had been misplaced. Four opacity meters were inactive and unsafe and one had been misplaced. | Equipment has not been misplaced. It was noted to properly store the available equipment. | Steps should be taken to ensure the protection of the equipment. |
| (e) | Even though Emission Test Certificates had been issued for 5,200,407 motor vehicles during the year under review, the Fund had carried out mobile tests only for 9317 out of the said motor vehicles. It had been a value as low as 0.18 per cent as compared to the number of emission certificates issued. | Tests are conducted only for highly emitting vehicles. | There should be higher level of performance in the functions discharged. |

3.2.3 Payments for External Parties for Conducting Emission Tests in respect of achieving the objectives of the Vehicular Emission Test Trust Fund.

The matters observed in this regard were as follows.

Audit Observation	Comments of the Management	Recommendation
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(a) Although the two researches conducted at a cost of Rs.21,500,000 for the evaluation of air pollution had been completed in the year 2017, the research report had not been received even up to May 2020.	Action will be taken to obtain the final report as expeditiously as possible.	Action should be taken to obtain report expeditiously.
(b) Although research reports of another 02 researches conducted for the evaluation of air pollution at a cost of Rs.1,376,650 had been handed over to the Fund in the year 2017, the recommendation specified therein had not been implemented up to date.	Action will be taken to provide these data to the interested parties.	Public finance should be used so as to achieve maximum performance.

3.3 Losses and Damages

Audit Observation	Comments of the Management	Recommendation
In accordance with Condition 4.1 of the agreement entered into with 02 private companies in the year 2007, ten per cent of the income earned by those companies should be remitted to the Fund within 07 days and a fine of 3 per cent should be paid for each day exceeding the above 07 days. Nevertheless, the Fund had considered the relevant 07 days as 07 working days. Accordingly, a sum of Rs.41,137,584 should have been recovered as fines relating to the late payments only for the year 2018.	Only the working days are considered irrespective of the weekends for this purpose. Hence, there are no fines to be recovered.	If the relevant fines cannot be recovered, conditions of the agreement should be legally interpreted.

3.4 Operating Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Although Rs.937,814,749 invested in the fixed deposits at a high interest rate had been withdrawn and credited to a savings account during the year under review, nothing had been done using it. Accordingly, the Fund had lost the favourable opportunity to earn a high interest income.	As the Board of Governance had not met, approval could not be obtained for the money investment.	Public finance should be used so as to achieve maximum performance.
(b) Although the information system used for the examination of charges recovered by the companies carrying out emission tests had become dysfunctional, no methodology had been introduced to examine the accuracy of the information provided by those companies	Having obtained the data provided to the ICTA by the relevant contractual companies from that institute, accounts are maintained accordingly.	The strategies devised for proper maintenance of the affairs of the Fund should be continuously adopted.

and to check whether the amount due to the Government was properly received.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
Variations ranging from 66 per cent to 97 per cent were observed between estimated and budgeted expenditure relating to 04 Items of Expenditure. Further, a sum of Rs.112 million had been allocated under 15 capital projects, whereas any of those projects had not been implemented. Accordingly, the budget had not been made use of as an effective instrument in management control.	It was noted to carry out an effective budgetary control system.	Budgetary amounts should be determined realistically.