

National Transport Medical Institute – 2015

The audit of financial statements of the National Transport Medical Institute comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, 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 18 of the National Transport Medical Institute Act, No.25 of 1997. My comments and observations which I consider should be published with the Annual Report of the Institute 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 will be furnished to the Chairman of the Institute in due course.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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 judgment, 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 Institute'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 Institute'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. Subsections (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 for the effects 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 National Transport Medical Institute as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

Instead of adjusting the cost of drugs made available for free to the employees of the Institute, those had been brought to account as the Osusala sales by adding a profit margin of 5 per cent to 15 per cent to the cost thereof. As such the sales and profit for the year under review had been overstated by a sum of Rs.976,126.

2.2.2 Unexplained Differences

According to the financial statements of the Medical Institute, the amounts recoverable from and payable to the Sri Lanka Transport Board amounted to Rs.9,773,866 and Rs.25,688,205 respectively, whereas according to the books of the Sri Lanka Transport Board those amounts had been Rs.13,068,136 and Rs.52,703,566 respectively. As such differences of Rs.3,294,270 in the recoverables and Rs.27,015,361 in the payables existed.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The balance receivable as at 31 December of the year under review for the supply of medical services to the employees of the Head Office of the Sri Lanka Transport Board, Central Bus Stand Office and the Drivers Training School at Kalutara amounted to Rs.9,917,005. Even though a sum of Rs.2,838,736 out of that had been balances older than 03 years, action had not been taken for the recovery of the money.

- (b) Action had not been taken for the settlement of deposits amounting to Rs.80,000 of the Colombo North and South Regional Transport Boards dissolved over 10 years ago and for the recovery of a sum of Rs.742,312 recoverable from those Boards and a sum of Rs.64,840 recoverable from the Colombo Metropolitan Bus Company and those had been brought forward in the financial statements continually. Even though assets and liabilities had been taken over by in Sri Lanka Transport Board action had not been taken for the recovery of those amounts from and settlement to the Board.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, and Management Decisions

Non-compliance

- (a) Finance Act, No.38 of 1971
(i) Section 10(5) of the Act

Even though all sums remaining out of the net surpluses in any year should be credited to the Consolidated Fund, no money whatsoever had been credited to the Consolidated Fund from the Surpluses of the Institute ranging from Rs.111 million to Rs.249 million during the years 2013 to 2015.

- (ii) Section 11 of the Act and Section 8.2.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003

A sum of Rs.654,427,445 had been invested in Treasury Bills and Fixed Deposits on the approval of the Board of Directors without obtaining the concurrence of the Minister of Finance and approval of the appropriate Minister.

- (b) Circular No.PF/PE/5 dated 10 January 2000 of the Ministry of Finance and the Public Administration Circular No. 29/2014 of 29 December 2014 and No.7/2015 of 26 March 2015.

Due to the payment of Festival Advances and Special Advances contrary to the limits specified in the Circulars; a sum of Rs.5,052,000 had been overpaid as Festival Advances and Special Advances during the year under review.

- (c) Circular No.PF/PE/5 of 10 January 2000 of the Finance ministry.

Allowances amounting to Rs.589,800 had been paid to the Doctors and the officers of the Supplementary Medical Services based on the Circulars issued by the Ministry of Health without the concurrence of the Treasury.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Institute for the year ended 31 December 2015 amounted to surplus of Rs.249,514,251 as compared with the corresponding surplus of Rs.176,317,308 for the preceding year, thus indicating an improvement of Rs.73,196,943 in the financial result for the year under review, as compared with the preceding year. Despite the increase of the administrative and establishment expenditure by a sum of Rs.84,033,096 the increase of the Medical Services income by a sum of Rs.156,244,727 had a significant impact of the above improvement.

An analysis of the financial results of the year under review and 04 preceding years indicated that despite the deficit of Rs.13,979,213 shown in the year 2012, improved surpluses had been shown from the year 2013 to the year 2015. Despite the decrease in the contributions after taking into consideration the remuneration of employees, the Government taxes and the depreciation on the non-current assets, in the year 2012 as compared with the year 2011, the contribution of Rs.91,499,130 in the year 2012 had continuously increased to Rs.509,133,718 in the year 2015.

4. Operating Review

4.1 Performance

- (a) According to Section 3 of the National Transport Medical Institute Act, No.25 of 1997 the functions of the Institute are as follows.
- (i) To provide medical services and assistance to drivers and operators, operating or driving all categories of motor vehicles including heavy duty vehicles.
 - (ii) To provide medical services and assistance in cases of accidents involving any category of motor vehicles and provide advice and special guidance relating to the quantum of compensation or damages payable in cases of accidents.
 - (iii) To appoint a panel of suitable medical officers to various districts for the purpose of discharging its functions and render medical advice and recommendations on industrial hygiene and industrial accidents.
 - (iv) To ensure either by itself or in consultation with other agencies that motor vehicles of all descriptions are operated or driven by persons who are physically and mentally fit and competent.
 - (v) To set standards and prescribe parameters regarding transport medicine to be adopted and implemented by the relevant implementing authorities.
- (b) Nevertheless, services such as providing medical services and assistance to the drivers or operators operating or driving all categories of motor vehicles including heavy duty motor vehicles, providing medical services and assistance in the case of accidents involving any category of motor vehicles, providing medical advice and recommendations on industrial

hygiene and industrial accidents providing advice and special guidance relating to the quantum of compensation or damages payable in cases of accidents, setting standards and prescribing parameters regarding transport medicine to be adopted and implemented by the relevant implementing authorities, setting limitations and providing medical assistance to the drivers and operators serving in the Private Bus Companies had not been carried out.

4.2 Management Activities

Even though a Medical Officer serving in the Institute had reported for service after completing further studies, he had vacated post without completing the compulsory service period of two years. Action had not been taken even up to the end of the year under review for the recovery of the course fees and salary amounting to Rs.1,128,012 paid to the Medical Officer.

4.3 Delayed Projects

Agreement had been reached to commence the repair work of the building on 01 August 2014 and completion in 105 days with the objective of using the second floor of the building for establishing the Head Office of the Institute and using the entire ground floor for the maintenance of medical services. Even though a sum of Rs.4,477,264 had been spent on the repairs, the work had not been completed even by the end of August 2016 for use of the building as the repairs had not been carried out according to a proper design.

4.4 Transaction of Contentious Nature

Even though the Interim and Special Allowances should not be taken into account for the computation of contributions to the Employees' Provident Fund and the Employees' Trust Fund and the Gratuity in terms of Section 47 of the Employees' Provident Fund Act No.15 of 1958 as amended by the Employees' Provident Fund (Amendment) Act No.1 of 1985 and Section 44 of the Employees' Trust Fund Act, No.16 of 1980, Rs.5,669,981 and Rs.1,417,495 respectively had been remitted in excess as contributions had been computed by including those allowances.

4.5 Staff Administration

The following observations are made.

- (a) An excess of 140 officers and a deficit of 22 officers existed between the staff approved for the National Transport Medical Institute in the year 2008 by the Department of Management Services and the actual staff of the Institute as at the end of the year 2015. Even though 149 of new employees had been recruited due to the establishment of new offices and the expansion of the activities of the Institute after the year 2008, action had not been taken even up to the end of the year under review to obtain the approval for the staff consisting of the posts and the cadre required for the Institute.

- (b) Despite the availability of a post of Secretary to the Board of Directors/Legal Officer in the approved staff of the Institute, an individual had been recruited on temporary basis instead of recruiting a permanent officer for that post. That officer had been paid a monthly allowance of Rs.20,000 without any confirmation of arrival at and departure from the Institute and reports of work done.

4.6 Motor Vehicle Utilization

Even though payments for repairs to motor vehicles should be made after obtaining the observations of a qualified person with regard to the need for repairs and that the repairs had been done properly, contrary to that, payments for repairs done in three instances in the year under review totalling Rs.514,198 had been made on the statements made by the Driver.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements for the year under review should have been presented for audit within 60 days after the close of the year of accounts. Nevertheless the financial statements had been presented for audit only on 14 July 2016, that is, after a delay of 4 months.

5.2 Procurement Process

Even though the Institute had prepared a Procurement Plan, the detailed Procurement Plan and the Procurement Schedules in terms of the Guidelines 4.2.1 and 4.2.2 of the Government Procurement Guidelines had not been prepared.

5.3 Budgetary Control

Comparison of the budgeted and the actual amounts for the year under review revealed that the expenditure incurred under 14 items of expenditure had exceeded the budgeted limits by 10 per cent to 319 per cent. Similarly, the savings under 3 capital expenditure items ranged from 79 per cent to 100 per cent. 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 during the course of audit were brought to the notice of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls
-----**Observation**

(a) Stock Control	Action not taken to maintain an optimum stock level in order to minimize urgent purchases of drugs.
(b) Income Control	Action not taken in transparent manner for renting and leasing of properties of the Institute by following a Procurement Process and collection of income during specified periods.
(c) Utilization of Motor Vehicles	(i) Action not taken in terms of the relevant Financial Regulation and Circulars. (ii) Non-maintenance of Motor Vehicle Log Books and particulars of Motor Vehicles.
(d) Issue of Medical Certificates	Non-maintenance of a Network Information System on the issue of Medical Certificates by every Branch.
(e) Staff Loans Control	In making payments superseding the circular instructions, payments made only on the approval of the Board of Directors without obtaining approval of the Treasury.
(f) Contract Administration	Procurement of Cleaning and Security Services without entering into service agreements.