

## National Transport Commission

### 1. Financial Statements

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#### 1.1 Opinion

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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 National Transport 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 1.2 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 National Transport Commission as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

#### 1.2 Comments on Financial Statements

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##### 1.2.1 Sri Lanka Accounting Standards

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Instances of non-compliances with Sri Lanka Accounting Standards were as follows.

##### (a) Sri Lanka Accounting Standard No.18

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The policy for depreciation of assets had not been disclosed in the accounts whereas depreciation provision of Rs.4,654,851 had been made during the year under review for fully depreciated assets costing Rs.22,675,158. Similarly, passenger shelters amounting to Rs. 7,948,183

constructed in various places for which the Commission does not have specific ownership, had been brought to account as assets of the Institution and provision for depreciation amounting to Rs. 1,589,630 had been made annually thereon.

(b) Sri Lanka Accounting Standard No. 24

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Although the accounting policies adopted in respect of Government grants should be disclosed in the financial statements, such disclosures had not been made in the financial statements in respect of Government grants amounting to Rs. 425,244,600 received for the year under review.

1.2.2 Accounting Deficiencies

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The following observations are made.

- (a) Examination carried out on adjustments made in the prior year adjustment account revealed that 6 items of revenue amounting to Rs.586,854 and 19 items of expenditure amounting to Rs. 429,270 to be included in the profit and loss account had been adjusted to the prior year adjustment account. As a result, surplus for the year under review had been understated by Rs. 157,584.
- (b) A sum of Rs. 12,883,319 spent during the year 2009 relating to 5 Projects had been brought to account as expenditure for the year 2010 due to exceeding the budgeted provision. As a result, the surplus for the year under review had been understated by that amount.

- (c) Examination of vouchers for the months of January and February 2011 revealed that provision made for accrued expenditure had been understated by a total sum of Rs. 1,230,053 which was spent for the year under review. As a result, the surplus for the year under review had been overstated by that amount.
- (d) Computers and accessories amounting to Rs. 273,933 purchased for the Deyata Kirula Exhibition had been charged to the expenditure of the Gemiseriya Project instead of capitalizing them. As a result, fixed assets account had been understated.
- (e) Furniture purchased for a sum of Rs. 17,808 had been credited to the building construction work-in progress account twice in capitalizing them. As a result, that account had been understated by that amount.
- (f) Although a sum of Rs. 562,349 from the work-in progress account relating to the new building should be transferred to as recurrent expenditure during the year under review in terms of the nature of the expenditure, a sum of Rs. 1,688,627 had been transferred. As a result, the surplus for the year under review and the balance of the work-in progress account had been understated by Rs.1,126,278.

### 1.2.3 Unreconciled Control Accounts

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According to the final statements of accounts, the total of 2 control accounts amounted to Rs. 181,251,799 whereas according to the relevant subsidiary records submitted for audit the total of those accounts amounted to Rs. 182,219,300 thus, indicating a difference of Rs.1,032,499. The reason for this had not been explained.

#### 1.2.4 Lack of Evidence for Audit

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The Register of Fixed Assets containing details of the vehicles costing Rs. 33,555,712 belonging to the Commission had not been presented for audit. As a result, the balance of those assets could not be satisfactorily verified.

#### 1.2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed.

Reference to Laws, Rules , Regulations

Non-compliance

and Management Decisions

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(a) Section 11 of the Finance Act, No. 38 of 1971 and Paragraph 8.2.2 of the Public Enterprises Circular No. PED 12, dated 02 June 2003

The prior approval of the Minister of Transport with the concurrence of the Minister of Finance had not been obtained in respect of investments amounting to Rs. 147,696,087 relating to the year under review.

(b) Public Enterprises Circular No. PED/12, dated 02 June 2003

I. Section 5.1.3

Even though the Chairman had informed that the approval of the Board of Directors had been obtained for the Corporate Plan for 2010 – 2014 subject to amendments, particulars thereon had not been submitted for audit. Similarly, evidence to prove that the Corporate Plan was forwarded to the relevant parties had not been submitted.

## II. Section 7.4.1

Even though 04 meetings of the Audit and Management Committee should be held during the year under review, only one meeting was held.

### 2. Financial and Operating Review

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#### 2.1 Financial Review

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##### 2.1.1 Financial Results

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According to the financial statements presented, the operation of the Commission for the year under review had resulted in a surplus of Rs.68,002,813 as against the net loss of Rs. 8,188,785 for the preceding year. The matters such as improvement in financial contribution of the Government and Ministry for projects, license income and other income had mainly effected for the improvement of Rs. 76,191,598 as compared with the previous year.

#### 2.2 Operating Review

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##### 2.2.1 Contract Administration

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The Commission had awarded a contract for construction of a new building for a sum of Rs. 86,302,216 and the total expenditure incurred along with the additional works amounted to Rs. 96,602,161. The following observations are made in this regard.

- (a) Although a maximum of 10% should be included for provision for contingencies in the preparation of initial cost estimates by the procurement entity in terms of Section 4:3 of Government Procurement Guidelines No. 8 of 25 January 2006, provision in this regard had not been made in the estimates prepared by the Commission.
- (b) According to Section 4.3.2 of the Guidelines, a copy of the total cost estimate approved by the Ministry Procurement Committee had not been submitted for audit.
- (c) The amount spent for items of contract works was Rs. 72,795,346 whereas the amount spent for additional works was Rs. 23,806,814. A sum of Rs. 12,768,724 spent for additional works which are not directly related to the building construction, had been included therein. However, a plan had not been prepared by the Institute for those additional works.
- (d) Similarly, according to Section 8.13.4 of the Guidelines, action had not been taken to obtain the approval of the Ministry Procurement Committee for contract variances and only the approval of the Head of the Institution had been obtained.
- (e) Action had not been taken to recover the VAT aggregating Rs. 512,420 paid for building materials supplied during the year under review by the Commission for construction of buildings from the contractor.

### 2.2.2 Delayed Projects

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The following observation was made in this connection.

A proposal was made by the Ministry of Transport in the year 2009 to permanently allocate two tracks in the middle of the double way roads and to use

it for BRT services in order to reduce the traffic congestion and environmental pollution in the Colombo City. After carrying out a suitability study, it was recommended by a prior feasibility study report that this system is suitable to the Colombo City. A sum of Rs. 2,550,319 had been spent during the years 2009 and 2010 for prior feasibility study and for other expenditure of this Project. Even though it was mentioned in the Cabinet Memorandum dated 13 July 2009 that the initial planning should be carried out within the year 2010, this Project had not been commenced even up to the end of March 2011 due to not receiving necessary provision from the Treasury.

### 2.2.3 Operational Inefficiencies

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The following observations were made in this regard.

- (a) Even though a sum of Rs. 1,268,497 had been spent by the Institute for a Project commenced in the year 2009 to install a traffic system prepared in electronic method in order to reduce traffic congestion and environmental pollution in the Colombo City, the Secretary of the Ministry of Transport had instructed to suspend it temporarily considering its sensitivity and practical condition. Therefore, it was observed in audit that the amount spent thereon had become a fruitless expenditure and that amount had been disclosed in the financial statements as an amount receivable from the Ministry of Transport.
- (b) Even though the approval had been obtained by the Cabinet Memorandum dated 24 February 2009 for the project of development of the passenger terminals at Bestian Mawatha, action had not been taken to develop the terminals up to the end of March 2011 due to non implementation of activities planned for this project, not taking action to find out a suitable investor and non commencement of activities to select a suitable institution for publishing advertisements.

- (c) Five Bus Companies had been registered during the year 2010 and a sum of Rs. 175,807 had been spent thereon by the Commission. However, only one Bus Company had been operated up to 31 December of the year under review. Similarly, office equipment valued at Rs.135,520 had been supplied to the Embilipitiya Bus Company, during the year under review. However, action had not been taken to start that company up to 31 December of the year under review.
- (d) A sum of Rs. 25,000 had been overpaid more than the relevant salaries of 09 Managers and Assistant Managers of the Bus Companies contrary to the instructions issued by the National Transport Commission in respect of administration of bus companies.
- (e) It was observed in audit that not making any provision in the National Transport Commission Act to obtain necessary powers to coordinate bus operators with the Bus Companies for establishment of those Companies and to mediate in the activities of operation of Bus Companies when necessity arises, had obstructed to establish these Companies.
- (f) It was observed that Projects such as Sisu Seriya, Gem Seriya and Nisi Seriya had not achieved the targets in the Corporate Plan and action had not been taken to incorporate new services for the year under review and taking action to obtain contribution of the private sectors had existed considerably at lower level.



#### 2.2.4 Budget

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The following observations were made.

- (a) Even though a sum of Rs. 5,000,000 had been provided by the Treasury during the year under review for quality assurance projects, a sum of Rs. 7,872,441 had been spent for those projects. A sum of Rs. 2,872,441 spent exceeding the budgeted amount had been brought to account as project expenditure for restructuring private bus industry.
- (b) Variances at the range of 17% to 152% were observed between the budgeted and the actual income and expenditure, thus the budget had not been made use of as an effective instrument of management control.

#### 3. Systems and Controls

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

- (a) Strategical Planning
- (b) Budgetary Control
- (c) Project Accounting
- (d) Documentation of Fixed Assets
- (e) Implementation of Projects
- (f) Issuing Passenger Service Tickets