

National Transport Medical Institute – 2013

The audit of financial statements of the National Transport Medical Institute for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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 the 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.

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 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 misstatement 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 Basic 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 2013 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

The following observations are made.

- (a) Treasury Bills valued at Rs.21,703,500 had been given for a land acquired by the Ministry of Highways, Ports and Shipping. The adjustments for the identification of results from the elimination of assets had not been made. As the amount received had been transferred to the General Reserve, the land eliminated continued to be included in the financial statements as an asset of the Institute.
- (b) Even though it was revealed that a sum of Rs.78,876 had been deposited in a savings account opened in the name of the Institute by the officers of the Institute on account of their fidelity guarantee security, that transaction had been completely omitted in the accounts. According to the statement of financial position, a sum of Rs.10,966 had been shown as fidelity guarantee security deposits in addition to the above amount. But an asset relating to that had not been reflected.
- (c) The provision for gratuity for the year under review had been understated by a sum of Rs.152,951 due to a computation error.
- (d) The consultancy fee amounting to Rs.100,000 payable in respect of the preceding year had not been adjusted with retrospective effect or as appropriate. Even though a sum of Rs.50,000 out of that had been paid in the year under review, the expenditure payable had been understated by a sum of Rs.50,000 as the payment had been debited to the Accrued Expenses Account.
- (e) The income receivable from interest on investments brought to account had been understated by a sum of Rs.65,169

2.2.2 Unexplained Differences

The following observations are made.

- (a) A difference of Rs.799,561 between the amounts shown in the Register of ‘Distress Loan Balances of the Branch Offices and the financial statements had not been settled.
- (b) The contributions to the Employees Provident Fund and the Employees Trust Fund relating to the Branches and the Head Office are paid by the Head Office and the inter-branch transactions in this connection are not set-off against each other. The amounts receivable from and payable to Branches had been shown as assets and liabilities. Nevertheless, a difference of Rs.702,695, resulting from the failure to reconcile and balance the two accounts, was observed.

2.3 Accounts Receivable

The following observations are made.

- (a) The sums totaling Rs.3,116,976 remained receivable from the Sri Lanka Transport Board as at 31 December 2013 on account of the medical services rendered and that had not been recovered even by 30 May 2014.
- (b) Even though the Metropolitan Bus Company operating in the premises of the Institute at Nugegoda had shifted in December 2012, a sum of Rs.742,312 receivable from the company on account of the security services provided to the company by the Institute had not been recovered.
- (c) The lease rent for 02 years amounting to Rs.120,000 receivable from the Driver Training School of the Sri Lanka Transport Board operating in the premises of the Institute at Nugegoda had not been recovered. Even though the lease agreement had expired in the year 2011, action had not been taken for the renewal of the lease agreement. Even though it had been agreed to deduct 1/5 of the amount payable to the Sri Lanka Transport Board for the security services provided, as the cost of the security services provided to the Driver Training School, the full amount had been paid. As such a sum of Rs.1,726,180 remained recoverable from the Sri Lanka Transport Board as at the end of the year under review.
- (d) Even though it had been decided at the meeting of the Board of Directors held on 25 July 2011 to set off the sum of Rs.2,549,767 payable by the Institute to the Sri Lanka Transport Board against the sum of Rs.10,484,219 receivable by the Institute from the Sri Lanka Transport Board and eliminate from the accounts, the concurrence for that had not been received from the Sri Lanka Transport Board.

- (e) Even though the Branches at Kurunegala and Galle had vacated their buildings before the expiry of the periods of the agreements, action had not been taken for the recovery of security deposits amounting to Rs.135,500.

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) Section 11 of the Finance Act, No. 38 of 1971 and Section 8.2.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003	Even though Rs.24,080,000 and Rs.254,910,018 had been invested in fixed deposits and Treasury Bills respectively in the year under review, the approval of the relevant Minister and the concurrence of the Minister of Finance had not been obtained.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka: Chapter XIX Section 1.3	In addition to the combined allowance paid to officers deployed on duty a sum of Rs.142,062 as lodging allowance and a sum of Rs.46,180 as cost of food and beverages had been reimbursed during the year under review.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 102	Even though the Assessment Notices indicate that 10 per cent discount is allowed for payments made before 31 January of the year, the benefit of Rs.49,153 had not been obtained by making payment on the due date. A penalty of Rs.50,192 had been paid due to delays in the payment.
(ii) Financial Regulation 757 (2)(b)	The copies of the Board of Survey Reports had not been furnished to the Auditor General before the date specified as the work on that had not been completed.
(d) Public Administration Circular No. 7/97 of 03 February 1997	A sum of Rs.43,828 had been paid as 1/20 allowance during the year under review to an officer of the Institute for working on more than one holiday in a month without approval. That officer had not marked attendance in the finger print machine on those particular days though the machine was in working condition. As such

- performance of duty for a period not less than 08 hours had not been established.
- (e) Paragraph 2 of the Public Administration Circular No. 31/2008 of 31 December 2008 and the Public Enterprises Circular No. 95 of 14 June 1994
- Even though the maximum festival advance payable to an officer is Rs.5,000 , payments had been made at the rate of Rs.25,000. As such a sum of Rs.1,960,000 had been overpaid during the year under review.
- (f) Paragraph 2 of the Circular No. 27/2011 of 12 December 2011 and the Public Enterprises Circular No. 95 of 14 June 1994
- Even though the maximum special advance payable per officer is Rs.2,500 , payments had been made at the rate of Rs.25,000. As such Rs.4,445,000 had been overpaid during the year under review. As interest is not charged on this advance the income lost amounted to Rs.396,600.
- (g) Section 8.3.3.(c) of the Public Enterprises Circular No. PED/12 of 02 June 2003 and the Management Services Circular No. 49 of 24 December 2012.
- Even though the bonus or the incentive only could be paid, bonus amounting to Rs.2,346,025 and incentives amounting to Rs.1,809,625 had been paid during the year under review. The formal approval for the incentive had not been obtained.
- (h) Public Enterprises Circular No. 95 of 14 June 1994
- The Accountant had obtained a sum of Rs.36,000 at the rate of Rs.3,000 per month without formal approval for the performance of duties of Branches.
- (i) Paragraph 3 of Public Enterprises Circular No. PED/50 of 28 July 2008 and Public Administration Circular No. 13/2008(iv) of 09 February 2011
- Fuel allowances amounting To Rs.150,000 at the rate of Rs.12,500 per month had been paid to an Accountant in Class III who is not-entitled to the monthly fuel allowance.
- (j) Circular No. IAI/2002/02 of 28 November 2002 of the Secretary to the Treasury
- A Register of Computer Accessories and Software had not been maintained.

3. Financial Review

3.1 Financial Results

According to the financial statement presented, the surplus of the National Transport Medical Institute for the year ended 31 December 2013 amounted to Rs.111,201,907 as against the deficit of Rs.13,979,214 for the preceding year. As such, the financial results for the year under review, as compared with the preceding year, indicated an improvement of

Rs.125,181,121. In view of the decision of the Ministry of Transport to make valid only the Medical Certificate issued by the Institute for the issue of Driving Licences, and the resultant increase of medical services income by 126 per cent had been the main reason for the improvement.

4. Operating Review

4.1 Performance

- (a) According to the Progress Report prepared by the Institute the financial performance had been taken for the measurement of the performance. According to that report, 07 instances of financial progress in ranges less than 20 per cent were observed.
- (b) Due to the absence of an Action Plan, the particulars of training to be provided to staff such as the field of training, by whom and for what period were not observed. A sum of Rs.301,000 had been spent on the conduct of different courses in areas such as accounts and administration for 24 persons.

4.2 Management Inefficiencies

The following observations are made.

- (a) Even though a block of State land 0.0472 hectares in extend had been received in the year 2009 for the construction of the Kandy Branch of the National Transport Medical Institute. a sum of Rs.660,000 had to be paid as rent at Rs.55,000 per month for the maintenance of the office in a private building in the year under review due to failure to construct the building on that land.
- (b) A sum of Rs.100,000 had been paid as the processing fee to the Urban Development Authority to obtain a land for the construction of the Ratnapura Branch. As the leasehold land given by the Urban Development Authority was not adequate, that had been rejected. Action had not been taken either for the recovery or write off of the amount.
- (c) Even though a sum of Rs.10,000 had been paid in February for the preparation of an estimate for the construction of the security fence and paining of the Anuradhapura Branch that work had not been executed even by the end of the year under review.
- (d) A sum of Rs.55,229 had been spent for carrying out repairs to a motor vehicle of the Institute which had met with an accident. A sum of Rs.42,114 had been received as the insurance indemnity and the sum of Rs.13,115 not covered by insurance had been written off from income under repair expenditure without taking action to recover that amount from the persons responsible.

- (e) Even though a sum of Rs.5,058,577 had been spent in the year under review for carrying out improvements to the Werahera Branch Building , the land had not been vested in the Institute.
- (f) The Register of Fixed Assets maintained by the Institute had not been updated, while the nature of each assets had also not been recorded.
- (g) The mobile phone used by a former Chairman had not been returned to the Institute while no action whatsoever had been taken on another telephone lost by him.
- (h) An Association of Lawyers in the Kalutara District had made a request to the Chairman for a cash sponsorship for a programme for the supply of essential equipment to the General Hospital, Kalutara and a list of equipment requested by the Director of the Hospital had also been sent along with that. But, a washing machine, not included in that list, had been purchased for Rs.33,210 and handed over to the Association of Lawyers. But, and documentary evidence in support of the takeover of the said washing machine by the Association of Lawyers or by the General Hospital, Kalutarya had not been produced for audit.
- (i) Even though suppliers had been registered for the supply of the drugs for the Institute an officer had been granted an imprest of Rs.40,000 for urgent purchases. The following weaknesses were observed in that connection.
 - (i) Despite the availability of registered suppliers, regular purchases from the imprest had been made as urgent requirements.
 - (ii) A proper system of the purchases required and stocking had not been introduced.
 - (iii) A system for control of payment by cash had not been introduced and attention had not been paid for the possibility of payment by cheque.

4.3 Staff Administration

The following observations are made.

- (a) Reconciliation of the staff approved for the National Transport Medical Institute by the Department of Management Services in the year 2008 with the actual staff as at the end of the year under review revealed an excess of 127 officers and a shortage of 30 officers.
- (b) The Organisation Chart of the Institute for the staff approved in the year 2008 had been approved by the Board of Directors on 20 November 2012. The Organisation Chart and the approved staff had not been registered in the Department of Public Enterprises in terms of Section 9.2 (d) of the Public Enterprises Circular No. PED/12 of 02 June 2003.

- (c) Even though the Scheme of Recruitment of the Institute had not been approved by the Department of Management Services, any officer recruited should possess at least the minimum qualifications required for the post. Nevertheless, an individual who had not completed at least the minimum qualifications had been recruited as a Management Assistant (Clerk).

- (d) A member of the Board of Directors had been appointed to a post of Administration Consultant not included in the approved staff without obtaining the approval of the Treasury in terms of Section 9.10 of the Public Enterprises Circular No. PED/12 of 02 June 2003. He had been paid an allowance of Rs.299,700 during the year under review.

4.4 Resources of the Institute given to other Government Institutions

A Driver of the Institute had been appointed with effect from 12 June 2012 as the Driver of the Co-ordinating Secretary of the Minister of Transport contrary to Section 8.9 of the Public Enterprises Circular No PED/12 of 02 June 2003. The Institute had paid Rs.531,287 as salaries and overtime and Rs.45,585 as travelling expenses in this connection during the period June 2012 to November 2013.

5. Accountability and Good Governance

5.1 Action Plan

An Action Plan in terms of Sections 5.1.2 and 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003 had not been prepared to enable the achievement of the objectives and targets during the planned period.

5.2 Procurement Plan

A Procurement Plan for the year 2013 had not been prepared in terms of Guideline 4.2 of the Government Procurement Guidelines.

5.3 Budgetary Control

Comparison of the provisions in the budget prepared for the year under review with the actual income and expenditure revealed variances ranging from 14 per cent to 465 per cent, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.4 Tabling of Annual Reports

The Annual Reports for the years 2011 and 2012 had not been tabled in Parliament even by the end of July 2014.

6. Systems and Controls

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 control.

- (a) Fixed Assets
- (b) Staff Loans
- (c) Debtors
- (d) Stock Control
- (e) Staff Administration
- (f) Budgetary Control