

National Transport Commission - 2014

The audit of financial statements of the National Transport Commission for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 37 of the National Transport Commission Act, No. 37 of 1991. My comments and observations which I consider should be published with the Annual Report of the Commission in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

The 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Commission'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 Commission'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. Sub-sections (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 Commission as at 31 December 2014 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) Even though the accrual basis for accounting was adopted by the Commission, provisions had not been made in the accounts for a sum of Rs.12,092,672 payable relating to the year under review.
- (b) The value of depreciation of property, plant and equipment purchased before the year under review had been understated by Rs.1,321,141 due to erroneous computation and depreciation of assets purchased during the year under review had been overstated by Rs.115,859 in the computation of depreciation.

2.2.2 Unexplained Differences

According to the financial statements, the value of short term deposits as at the end of the year under review amounted to Rs.239,500,000 and the interest received thereon had been re-invested but instead of accounting the interest received as an investment, it had been included in an interest receivable account. Even though the interest received was Rs.9,566,017 according to the bank confirmations, it had been shown as Rs.5,542,909 in the financial statements, thus indicating a difference of Rs.4,023,108 and reasons therefore had not been explained.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following non – compliances with laws, rules, regulations and management decisions are observed.

Reference to Laws, Rules , Regulations and Management Decisions

Non – compliance

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| (a) Section 11 of the Finance Act, No.38 of 1971 and Section 8.2.2 of the Public Enterprises Circular No PED/12 dated 02 June 2003. | Even though sums of Rs.18,187,405, Rs.239,500,000 and Rs.9,282,656 had been invested respectively in fixed deposits, short term deposits and Treasury Bills shown in the financial statements, concurrence of the Minister of Finance and the approval of the Minister in Charge thereon had not been obtained. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulation 757 | Boards of Survey had not been conducted as at the end of the year under review and the report, not presented to audit. |
| (ii) Financial Regulation 1646 | Even though daily running charts had been maintained in respect of 15 motor vehicles owned by the Commission, reconciliation of fuel, indicating the quantity of fuel obtained by each vehicle, fuel consumption and the quantity of balance fuel in the tank had not been carried out. Moreover, action had not been taken to submit the originals of running charts and monthly summaries to the Auditor General. |
| (iii) Financial Regulation 1647(b) | In transferring the ownership of the motor vehicles owned by the Institution, a report of changes in respect of protection of the motor vehicle and parts thereof had not been maintained. |
| (c) Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 | A Draft Annual Report had not been presented along with the financial statements. |
| (d) Public Administration Circular No.41/90 of 10 October 1990 | Action had not been taken to test the fuel consumption of every vehicle owned by the Commission by a qualified person once in 6 months. |

- (e) Treasury Circular No.1A1/2002/02 of 28 November 2002 A separate Register of Fixed Assets had not been maintained in respect of computer accessories and software.
- (f) Letter of the Director General of the National Budget No. BD/ID184/2/2/3 of 24 June 2014 Even though the Treasury had granted its approval to purchase a motor vehicle up to the value of Rs.8,000,000 for the use of the Chairman of the National Transport Commission, a motor vehicle had been purchased by spending Rs.1,150,000 exceeding that limit.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the National Transport Commission for the year ended 31 December 2014 had been a surplus of Rs.109,202,557 as against the deficit of Rs.181,195,469 for the preceding year, thus indicating an improvement of Rs.290,398,026 in the financial result of the year under review as compared with the preceding year. Increase in income by 18 per cent and Government grants by 74 per cent had attributed to this improvement.

3.2 Legal Action Initiated Against / by the Commission

The following observations are made.

- (a) Thirty three cases had been filed in the Courts against the Commission in respect of vesting the bus terminal at Bastian Mawatha with the Commission by external institutions and persons, implementation of time tables, issue of passenger service licenses, promotions not made, “Sisusariya bus services”, and action taken against employees of buses etc.
- (b) Fifty three cases had been filed by the Commission against the institutions in respect of running buses without passenger service licenses and out of that, 12 cases had been settled in the year under review and 41 were being tried.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Thirty one “Gamisariya” bus services and 136 “Nisisariya” bus services had been maintained by the end of the preceding year and it had been planned to maintain the same number in the year under review as well. However, those bus services had been decreased up to 21 and 114 respectively by the end of the year.

- (b) Even though it had been planned to train 1200 drivers and conductors each in the year under review, with a view to bringing forth disciplined drivers and conductors, only 975 and 872 respectively could be trained during the year.
- (c) A sum of Rs.40,000,000 had been allocated for the year under review for the establishment of a new control room for expanding the activities of regulation of interprovincial buses based on the GPS Technology and it had been planned to complete those activities by the end of the year. However, only the building had been completed by the end of the year and a sum of Rs.18,189,547 had been spent thereon. Even though it had been planned to complete by 10 April 2015, activities of that project could not be completed even by the end of May 2015.
- (d) According to the Action Plan, 04 projects valued at Rs.15.5 million which had been planned to carry out in the year under review had not been commenced and no reasonable matters whatsoever had been observed in the audit thereon.

4.2 Management Inefficiencies

The following observations are made.

- (a) Seven digital display boards had been fixed at Bastian Mawatha in Colombo, Anuradhapura, Kurunegala, Nuwara Eliya, Katharagama, Ranna and Puttalam spending Rs.62,415,360 by the Commission with a view to display timetables of interprovincial buses and buses run in the Province. However, all those boards remain inoperative by now. It had been decided to display commercials on these digital boards with a view to maintaining the continuous function of these boards and to cover the electricity charges spent thereon. Even though an external institution had been selected to implement these objectives, it had failed to do so. Even though a sum of Rs.286, 266 had been spent for the purchase of computers and other accessories by the Commission to fulfill that purpose utilizing their own resources, it had been failed as well. Even though those boards failed to operate, a sum of Rs.1,489,663 had been paid for electricity and internet facilities obtained up to the end of May 2015 and a further sum of Rs.433,265 was payable.
- (b) Even though a CCTV Camera System had been installed spending a sum of Rs.470,250 and a sum of Rs.61,862 for internet facilities per month so as to enable the Manager of the Bus Terminal at Bastian Mawatha and the Chairman of the Commission to supervise its activities from their offices, it is not in operation by now and the officers responsible had not taken action to restore it to the normal condition.
- (c) Even though 50 applications out of 83 received at the calling of quotations for 84 permits for 14 routes from Colombo and suburbs to the North East, had exceeded the expected technical value, only 23 permits had been issued. Moreover, quotations had been called for in the preceding year for 12 permits from Colombo to 10 other destinations and out of that, only 08 permits had been issued for 06 routes. Even though the quotations received for the remaining 04 routes had exceeded the expected value, permits had not been issued thereon.

- (d) Despite instructions given by the Attorney General that the authority on issuing of permits for the Colombo – Katunayake Expressway is assigned to the Commission, issuing of permits for running of buses on that road had not commenced even by 15 May 2015.
- (e) Even though GPS equipment had been installed in the year under review for 07 motor vehicles, out of 15 of the vehicle pool belonging to that Commission with a view to controlling the usage of vehicles of the Commission, it was observed that the usage of vehicles is not controlled due to failure in proper maintenance and assigning the drivers of the custody of the equipment. At present all these equipment are inoperative and the officers responsible had not taken action to restore it to the normal condition.
- (f) A sum of Rs.79,061,375 had been incurred for 2,095 GPS equipment installed in buses so as to enable the direct supervision of interprovincial bus running activities by the National Transport Commission using Satellite Technology. Moreover, a sum of Rs.8,313,625 had been payable to the institution which maintains those equipment. All the GPS equipment had been inoperative by May 2015 and the Management had failed to restore them to normal condition.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) A meeting had been organized by the National Transport Commission with the President and the officers of all institutions represented by the transport sector and a sum of Rs.8,009,310 had been spent for that occasion and a sum of Rs.1,891,000 had been spent for recording it for television. Even though it had been shown under Accounts Note No. 16.13.1(1) of the financial statements presented to audit, that no proper approval had been obtained for this expenditure, the Commission had not conducted a formal inquiry in respect of such payments without approval. In addition, the following observations are made in respect of this expenditure.
 - (i) Even though an estimate of Rs.6,699,583 had been prepared for this purpose, a sum of Rs.1,309,727 had been spent exceeding that estimate.
 - (ii) No quotation had been called for any purchasing whatsoever for this and the suppliers had been selected at the discretion of the Procurement Committee.
- (b) Provisions had been made only for planning school services on sponsorship charges for school children in terms of Section 8(h) (ii) of the National Transport Commission Act. However, the Commission had purchased school bags at the value of Rs.2,669,500 and distributed in two instances during the year. It had been shown under Account Notes No. 16.13 of the financial statements presented to audit that a proper approval had not been obtained for the payment of Rs.1,327,500 out of the above payment.

4.4 Personnel Administration

In comparing the actual cadre with the approved cadre as at 31 December 2014, there were 36 vacancies which included 22 executive level posts. Despite having approved the recruitment procedure of the Commission by Letter No. DMS/1637/VII of 07 October 2014 of the Director General of the Department of Management Services, acting appointments had been made for those posts without taking action to fill those vacancies.

5. Accountability and Good Governance

5.1 Presentation of Accounts

It had been stated that even though the Board of Directors is responsible for the preparation and presentation of the financial statements presented to audit, the present Board of Directors is not responsible in respect of income and expenditure as indicated by paragraph 16.13.1(4) thereof.

5.2 Budgetary Control

The budget for the year under review had not been presented according to the format of the annual accounts in terms of Section 8(3) of the Finance Act, No.38 of 1971 and Section 5.2.1 of Public Enterprises Circular No. PED/12 of 02 June 2003. In comparing the budgeted figures with actuals for the year under review, an amount from 4 per cent to 47 per cent had been spent exceeding the provisions made relating to 15 Objects and there were variances ranging from 6 per cent to 67 per cent relating to other Objects, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.3 Tabling of Annual Report

The Annual Report of the Commission should be tabled in Parliament in terms of Section 12 (3) of the Finance Act, No 38 of 1971 and Section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003. However, Annual Report for the year 2012 had not been tabled in Parliament even by 15 May 2015.

6. Systems and Controls

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

- (a) Issue of Passenger Services Permits
- (b) Procurement Activities
- (c) Contract Administration
- (d) Vehicles Utilization