

National Transport Medical Institute - 2014

The audit of financial statements of the National Transport Medical Institute 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 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 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 judgement, 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. 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 Medical Institute 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 Sri Lanka Public Sector Accounting Standards

Even though the depreciation of an asset should be begun when it is available for use in terms of Sri Lanka Public Sector Accounting Standards No. 07, action in accordance with the Standard had not been taken with regard to the property, plant and equipment purchased at a cost of Rs.34,173,881 by the Institute during the year under review. Thus, depreciation of Rs.1,187,560 relating to the year and a sum of Rs. 51,862 due to the computation errors in depreciating assets purchased in previous years had been understated in accounts.

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Provision for gratuity had been understated by Rs.2,120,713 due to the errors in computing gratuity of employees in terms of Board Paper No.2013/56.
- (b) Accrued lease rent of Rs.1,719,000 relating to the year under review and a lease rent of Rs.235,807 paid in advance had been understated in the accounts.
- (c) A sum of Rs.1,006,350 computed by adding a profit margin to the cost had been shown as Osusala sales and other service income and the expenditure by a similar amount instead of showing the cost incurred on drugs and medical services provided free of charge to the employees of the Institute as the expenditure of the Institute.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Lease rent and security charges amounting to Rs.2,857,861 had been recoverable as at 31 December of the year under review from the Driver Training School of the Sri Lanka Transport Board operating in the premises of the Transport Medical Institute. Even though a sum of Rs.772,034 out of the said amount had been brought forward over a period exceeding two years, the Institute had not taken action to recover the amount.
- (b) A total sum of Rs.3,788,472 remained receivable to the Institute on account of the medical services rendered for the employees of the Sri Lanka Transport Board. Even

though a sum of Rs.2,043,409 out of the said amount had been older than two years, a proper course of action for the recovery of the amount had not been taken by the Institute.

- (c) Sums totalling Rs.33,950 and Rs.30,890 recoverable from the years prior to year 2005 from the Regional Transport Board, Colombo North which was dissolved at present and the Regional Transport Board, Colombo South respectively and a sum of Rs.742,212 recoverable from the Metropolitan Bus Company had been brought forward in the financial statements without being settled. Even though all assets and liabilities of these institutions had been transferred to the Sri Lanka Transport Board, action had not been taken to recover the dues from the Sri Lanka Transport Board.
- (d) Even though the Branches at Kurunegala and Galle had vacated the buildings before the expiry of the periods of the agreements, action had not been taken for the recovery of sums amounting to Rs.77,500 and Rs.36,000 respectively due from the relevant owners to the Institute.
- (e) A sum of Rs.1,470,832 payable to the Sri Lanka Transport Board in respect of route permits had been brought forward in accounts over a period exceeding two years without being settled.
- (f) A sum of Rs.80,000 deposited in the Medical Institute by the Board in respect of the medical treatments provided to the employees of Regional Transport Boards of Colombo North and South remained without being settled over a period exceeding 10 years as the Boards were dissolved.

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	Sums totalling Rs.23,380,000 and Rs.348,318,249 had been invested in fixed deposits and Treasury Bills respectively in the year under review without obtaining the concurrence of the Minister of Finance and the approval of the relevant Minister.
(b) 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.
(c) Treasury Circular No.842 of 18 December 1978	A Register of Fixed Assets had not been prepared in a manner to clearly identify the depreciation, increase of values and disposals

of the assets purchased before the year 2014.

- (d) Paragraphs 4.2.1 and 4.2.2 of the Government Procurement Guidelines - 2006
- A detailed Procurement Plan and a Procurement Time Table had not been prepared.

3. Financial Review

3.1 Financial Results

According to the financial statement presented, the financial result of the National Transport Medical Institute for the year ended 31 December 2014 had been a surplus of Rs.177,415,707 as compared with the corresponding surplus of Rs.111,147,463 for the preceding year. As such, the financial results for the year under review indicated an improvement of Rs.66,268,244 as compared with the preceding year. Even though the administration expenditure had increased by Rs.40,794,974, the increase of medical services income by Rs.121,163,691 had mainly attributed to this improvement.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) Even though the validity period of the lease and security service agreement entered into with the Sri Lanka Transport Board had expired, security services were being further obtained from the Transport Board without taking action to renew that agreement or to enter into a new agreement. The Institute had agreed to pay the balance after deducting 1/5 of the total amount payable for the security services provided to the Driver Training School of the Sri Lanka Transport Board by the security officers provided to the Institute in terms of the Paragraph 6 of the Agreement and according to the decision No.NTMI/2000/10 of the Board of Directors. Nevertheless, in paying the charges relating to the year under review, the full amount had been paid without deducting the sum of Rs.633,600 which should be deducted.
- (b) A Medical Officer of the Institute had been released with salary for a period of one year from 24 April 2011 up to 25 April 2012 to follow a postgraduate course on Medical Administration conducted by the Postgraduate Institute of Medicine of the University of Colombo and had agreed to serve in the Institute for two years after return to work. The said Medical Officer had sent to the Institute a letter of resignation from 01 January 2014 before the end of obligatory period of service. Accordingly, action had not been taken to recover a sum of Rs.1,128,012 comprising the course fee and the salary paid during the relevant period from the said officer.
- (c) The Administration and Accounts Sections in the Ground Floor of the Head Office at Nugegoda was shifted to the Second Floor of the same building and the repair work of the Second Floor had been commenced in September 2014 on the basis of completion by 31

December of the year under review with the intention of using the entire Ground Floor and the First Floor for the purposes of medical services. Nevertheless, that task had not been completed despite incurring an expenditure of Rs.3,620,132 as at that date.

- (d) In purchasing drugs for the Osusala at the Institute, action had been taken to purchase required drugs by granting an advance of Rs.40,000 to an officer without purchasing drugs from the registered suppliers by identifying the annual drug requirement. As such, the opportunities to purchase the drugs for a favourable price had been deprived of.

4.2 Staff Administration

The following observations are made.

- (a) A comparison of the cadre approved for the National Transport Medical Institute by the Department of Management Services in the year 2008 with the actual cadre as at the end of the year under review had revealed an excess of 133 employees.
- (b) A Scheme of Recruitment and Promotion had not been prepared and obtained the approval.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements for the year under review should have been presented for audit within 60 days from the close of the year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements had been presented for audit only on 10 September 2015 after a delay of 07 months. Further, a copy of the draft annual report had not been presented along with the financial statements.

5.2 Tabling of Annual Reports

The Annual Reports for the years 2012 and 2013 of the Institute had not been tabled in Parliament even by the end of September 2015 in terms of Section 14(3) of the Finance Act, No.38 of 1978.

5.3 Action Plan

The following matters were observed in the reconciliation of Action Plan and the Budget presented for audit.

- (a) Even though it had been planned to implement projects valued at Rs.98.7 million according to the Action Plan, only a provision of Rs.72.7 million had been made in the Annual Budget.
- (b) The entire provision of Rs.35.2 million made had been saved due to the failure to commence 05 projects during the year as scheduled according to the Action Plan. Except for the provision made for the construction of the building for the construction of

Gampaha Branch before purchasing a land, no justifiable reason whatsoever for the non-commencement of other projects had been made available to audit.

- (c) Out of the provision of Rs.59.5 million made for 07 projects by the Action Plan, a sum of Rs.30.42 million had been saved and it represented percentages ranging from 26 to 94 of the provision made. Nevertheless, a sum of Rs.4.37 million had been spent exceeding the Rs.2 million allocated for the purchase of household equipment, fittings, steel and office equipment.

5.4 Budgetary Control

Variances ranging from 20 per cent to 101 per cent were observed as compared with the budgeted income and expenditure with the actual income and expenditure of the year under review, thus indicating 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.

- (a) Assets Management
- (b) Accounts Receivable and Payable
- (c) Stock Control
- (d) Staff Administration
- (e) Budgetary Control