Vehicle Emission Test Trust Fund of the Department of Motor Traffic - 2015

The audit of financial statements of the Vehicle Emission Test Trust Fund of the Department of Motor Traffic for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with paragraph 9 (d) of the Vehicle Emission Deed of Trust entered into on 29 December 2009 and Section 29(b) of Motor Traffic Act (Cap.203) as amended by the Motor Traffic (Amendment) Act, No.8 of 2009 under the Motor Traffic Emission Control Order No.01 of 2008. My comments and observations which I consider should be published with the Annual Report of the Department 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 preform 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 judgements, 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 Fund'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 Fund's internal control. An audit also includes the reasonableness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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 Vehicle Emission Test Trust Fund 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard- 01

Even though assets and liabilities shall not be offset unless required or permitted by Sri Lanka Public Sector Accounting Standard 01, the negative bank overdraft amounting to Rs. 760,510 had been offset and shown against the balance of the savings account.

(b) Sri Lanka Public Sector Accounting Standard- 07

(i) Even though an asset should be depreciated when it is available for use, the Fund had followed the policy of non-depreciation of assets in the year of purchase.

(ii) Even though the accumulated depreciation of property plant and equipment as at the end of the accounting period should be disclosed, fund had not been complied to that.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Profits or losses made by purchasing Treasury bonds had not been identified as a profit or loss during the year of purchasing them. Losses amounting to Rs. 6,143,912 occurred from the year 2012 to 2014 had been deducted from the accumulated fund in the year under review and the profit of Rs.1,836,621 relating to a bond purchased in the year 2013 due to be matured in the year 2016 had not been identified as profits in the relevant year.

(b) Employees’ contribution amounting to Rs. 281,702 for the Employees’ Provident Fund had been accounted as an employees’ provident expenditure.

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

The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Public Finance Circular No. PF/423 of 22 December 2006	
(i) Paragraph 3.2 (b)	Even though action should be taken to transfer the surplus money and matured investments after the settlement of all payables and liabilities immediately to the Consolidated Fund, new Treasury Bills of Rs. 514,999,271 had been purchased by using Treasury Bills of Rs. 381,854,568 realized during the year under review. Further, a sum of Rs. 80,853,558 had been maintained as deposits in bank accounts and no amount whatsoever had been credited to the Consolidated Fund during the year under review.
(ii) Paragraph 4.2 (d)	Reports on the progress of the Fund for each quarter had not been submitted to the Director General of Public Finance.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had been a surplus of Rs.176,143,565 as compared with the corresponding surplus of Rs. 126,399,391 for the preceding year thus indicating an improvement of Rs. 49,744,174 in the financial result of the year under review as compared with the preceding year. A sum of Rs. 46,982,507 had been spent for international conferences and for awareness programmes by media in the preceding year. However, non-incurrence of such expenditure in the year under review had mainly attributed to this improvement.

A continuous improvement was shown in the contribution of the Fund since the year 2011 after adjustments for employees' emoluments and depreciation of non-current assets and it was Rs.204,524,702 at the end of the year under review. Moreover, it was observed that such an improvement had occurred due to increase in the number of motor vehicles registered annually.

3.2 Analytical Financial Review

The Quick Ratio of the Fund in the year under review was 8547:1 and it was 235:1 in the preceding year. As such, it was observed that a working capital higher than the required amount for day-to-day activities, had been maintained.

4. Operating Review

4.1 Performance

(a) The objects and purposes of the Fund shall be

- To establish and maintain a project Office in the Department of Motor Traffic to facilitate the operations of the Trust.

- To implement an efficient and effective monitoring & Evaluation Program to effectively implement the objects and purposes of the Trust.

- To develop necessary infrastructure facilities and obtain emission testing equipment and such other equipment required for the execution of the VET Monitoring Program.

- To obtain services inter alia of Technical Advisors, consultants and other staff including a Secretary and Accountant to the Trust required for the effective implementation of Programs associated with the trust and management of the Trust.

- To provide and develop facilities necessary for the effective functioning of the VET Monitoring Program.

- To improve Traffic Management or Road Safety Activities that would facilitate the effectively implementation of the objectives of the Fund and to monitor and conduct activities that would facilitate air quality improvements which will in turn result in reduced health risks and improved general living conditions inter alia to the public

(b) Even though the Fund had implemented programmes to identify fields and areas where air pollution had occurred, activities had not been implemented even by the end of the year under review for improvement of the air quality to increase the living condition of the public by reducing health risk.

(c) A service agreement for Rs.16,195,000 had been entered into with the University of Peradeniya for the service obtained by the Ambient Air Quality Project and out of that amount, a sum of Rs.8,000,000 had been paid during the year under review. Even though the purchases thereon should be made by the University with the concurrence of the Fund in terms of agreements, the Fund had not been reported in respect of procurements made during the year. Progress Reports which should be submitted half yearly had not been submitted as well within the due period.

4.2 Operating Inefficiencies

The following observations are made.

(a) It had been reported that the total number of vehicle emission test centres in the island had been 384 in the year under review and out of that, 75 or 20 per cent had been examined by the Vehicle Emission Trust Fund. Fifteen centres which had been examined had been suspended fully or partially and it represented 20 per cent out of the centres examined. As such, the reliability of the vehicle emission test certificates issued by the centres not examined, could not be satisfied in audit.

(b) Two private institutions by which vehicle emission tests are carried out had issued vehicle emission test certificates for 3,731,629 motor vehicles in the year under review and out of that, Vehicle Emission Test Trust Fund had carried out only 5,391 vehicle emission tests in the year under review. It represented 0.14 per cent. As such, the Vehicle Emission Trust Fund had not paid adequate attention on the accuracy of vehicle emission tests.

(c) It had been identified that out of 3,160 motor vehicles subjected to Roadside Emission Tests, 713 alone were not complied with the relevant Standards. Out of those 713 motor vehicles, 62 had not been subjected to emission test again and only the revenue licences of the relevant motor vehicles for the year under review had been withheld by the Trust Fund and the vehicles were released. Attention had not been paid on the possibility of obtaining licences again improperly by the relevant vehicle owners due to the unawareness of the Licence Issuing Officers in respect of licences so withheld.

(d) An adequate programme had not been made use to inspect activities of institutions by which vehicle emission test certificates are issued.

5. Accountability and Good Governance

5.1 Budgetary Control

A variance ranging between 82 per cent and 100 per cent existed between the budgeted expenditure and the actual expenditure in connection with 05 items of expenditure of the Fund. As such, it was observed that the budget had not been made use of as an effective instrument of management control.

5.2 Annual Procurement Plan

Even though provisions amounting to Rs. 211,780,000 had been made by the annual budget for the purchase of goods and services of the Fund, an Annual Procurement Plan therefor had not been prepared in terms of the National Budget Circular No.28 of 26 March 2006.

5.3 Internal Audit

An income of Rs.226,740,603 had been received to the Fund for the year under review and an expenditure of Rs. 50,597,038 had been incurred. However, an internal audit had not been carried out in terms of Financial Regulations 133 and 134 and instructions of the Circular No. DMA/2009 (1) issued on 09 June 2009 by the Management Audit Department of the Treasury had not been followed.

6. Weaknesses in Systems and Controls

The weaknesses in systems and controls observed during the course of audit were brought to the notice of the Commissioner General from time to time. Special attention is needed in respect of complying with Sri Lanka Public Sector Accounting Standards and Accounting Principles.