

Sri Lanka Transport Board – 2015

The audit of financial statements of Sri Lanka Transport Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the comprehensive income statement, 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 24 of the Sri Lanka Transport Board Act, No. 27 of 2005. My comments and observations which I consider should be published with the Annual Report of the Board 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 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 the audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, comprehensive income statement, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Going Concern of the Board

As the Board had been incurring continuous losses, the net assets had extensively eroded and as a result, the net assets by the end of the year under review had become a negative value of

Rs.28,977,203,239. It was observed in audit that without the financial assistance of the Treasury or the Government, the going concern of the Board could be uncertain.

In analyzing the financial position for the year under review and the 4 preceding years, current assets to cover up the current liabilities had been at a level lower than 34 per cent of the total current liabilities during the period from 2011 to 2015 and this level had been at 42 per cent in the year 2010. Non-settlement of payables as specified, failure in taking action to recover receivables and the balances brought forward for a long period without being settled had mainly attributed to this position.

2.2.2 Sri Lanka Accounting Standards

The following non-compliances were observed.

(a) Sri Lanka Accounting Standard 01

In terms of paragraph 32 of the Standard, assets and liabilities and income and expenditure should not be offset except required or permitted by a Standard. However, the following offsets had been carried out.

- (i) According to the schedules presented, overdraft balances out of beneficial cash balances of 30 bank accounts amounting to Rs.27,390,759 had been offset while overdraft balances of 14 bank accounts amounting to Rs.20,691,606 had been offset against beneficial balances. As such, the bank cash balance and bank overdraft had been understated by Rs.45,853,652 and Rs. 45,853,652 respectively in the financial statements.
- (ii) Out of trade creditors balance totalling Rs.649,233,033 of 3 depots and regional offices, creditors debit balance of Rs.32,700,544 had been offset and shown as trade creditors balance of Rs.616,532,489 in the financial statements.
- (iii) Out of trade debtors balance amounting to Rs.12,657,758 of the Kalutara Driver Training School, a credit balance of Rs.46,080 had been offset and shown in the financial statements.
- (iv) Out of the balance of Rs.66,516,172 payable to the Ceylon Petroleum Corporation, a debit balance of Rs.45,568,987 had been offset and shown in the financial statements.

(b) Sri Lanka Accounting Standard 07

The balances of the Stock Adjustment Account and the Fuel Surplus/Deficit Account amounting to Rs.120,428,954 and Rs.42,471,837 that had been adjusted to the profit of the year under review respectively had not been adjusted under Non-cash items in the cash flow statement.

(c) Sri Lanka Accounting Standard 16

The following observations are made.

- (i) In terms of paragraph 55 of the Standard, depreciation of an asset begins when it is available for use and shall be allocated on a systematic basis over its useful life. However, the Board had not made provisions for depreciation relating to property, plant and equipment valued at Rs.51,541,669 purchased on cash and on lease basis and utilized in the year under review.
- (ii) In terms of paragraph 58 of the Standard, the value of lands and buildings should be separately identified and shown in the financial statements. However, contrary to that, a sum of Rs.319,799,319 had been shown as lands and buildings in the statement of financial position. Out of that total value, depreciation had been computed annually at the rate of 2.5 per cent considering fifty per cent, that is a sum of Rs.159,899,660 as the value of buildings. As such, depreciation of Rs.1,048,812 had been made by the year 2015 exceeding the cost of buildings.
- (iii) Even though the useful life of non-current assets had not been reviewed annually, 988 Items of Assets costing Rs.3,037,266,897 had been fully depreciated. However, they had still been in use. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 8.
- (iv) Even though 825 bus engines valued at Rs.1,004,452,160 purchased in the year 2006 should be capitalized to the value of the relevant bus and re-estimated the life span in the installation of the engines to buses, contrary to that, the bus engines purchased had been separately brought to account and 20 per cent depreciation made therefor.

(d) Sri Lanka Accounting Standard 17

The following observations are made.

- (i) In terms of Section 31(b) of the Standard, in disclosing lease liability in the financial statements, the fair value of such lease assets or the present value of lease payments payable, whichever is lower should be disclosed and it should have been disclosed as follows. Contrary to that, only the financial lease liability at cost and the interest thereon on sum of digit method had been computed by the Board and shown as Rs.10,032,569,943 under lease liability.
 - * Reconciliation between the minimum lease instalment at the end of the period and their present value.
 - * The total of future lease instalments at the end of the accounting period and their present value for periods not less than one year, over one year and less than five years and over five years.

(e) Sri Lanka Accounting Standard 19

In terms of paragraph 57 of the Standard, the post- employee benefit liability should be accurately estimated based on the Projected Unit Credit Method. However, without doing so, the provision for total gratuity had been computed by adding the Cost of Allowance and additional allowances to the average salary of each Grade and multiplying by the number of officers.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Direct receipts to bank accounts of 09 depots and bank fees of Rs.36,612,935 and Rs.2,629,593 had not been identified and brought to account as income and expenditure respectively according to bank reconciliation statements as at 31 December of the year under review. A sum of Rs.1,973,578 which had been debited twice in the cash book in 07 instances had not been rectified and direct credits of Rs.7,885,175 had not been settled on long term in 40 instances.
- (b) Depreciation of Rs.201,247,403 had not been brought to account for buses valued at Rs.1,751,869,409 purchased in the year under review on cash and on lease basis.
- (c) In making provisions for gratuity in the year 2015, the interim allowance had been added to salaries and wages. As such, overprovisions of Rs.357,740,000 had been made for gratuity.
- (d) Even though 900 electronic ticket machines valued at Rs.31,619,700 had been purchased for the year 2015 and issued to depots, it had been recorded as Rs.28,863,689 under depot assets. As such, the balance of assets in the financial statements and the payable balance of the current account of the Head Office had been understated by Rs.2,756,011.
- (e) Even though the renovations of the Kataragama Rest House had been completed on 16 July 2015, a sum of Rs.14,813,358 which was its construction cost had been shown under Work-in-Progress in the financial statements without capitalizing to the Building Account. As such, the depreciation relating to that building had not been brought to account from that date up to 31 December.
- (f) Even though the constructions of the new depot at Horowpathana had been completed and utilized for the purposes of the Board from 10 June 2012, a sum of Rs.32,436,772 incurred for its constructions had been shown as Work-in-Progress without capitalizing to the Buildings Account. As such, depreciation of Rs.2,838,218 relating to 3 ½ preceding years for these buildings had been omitted from computing and accounting.
- (g) According to financial statements, interest of Rs.4,548,371 received for the two fixed deposits totalling Rs.9,000,000 of the Central Bus Stand had been reinvested. However, instead of debiting the Investment Account in that value, the Income Receivable Account had been debited.

- (h) The interest receivable for a fixed deposit relating to the period from 01 June up to 31 December 2015 had been understated by Rs.162,503 in accounts.
- (i) The sum of Rs.8,183,702 receivable for warrants issued to the Civil Security Force had been recorded twice in the income of the year and income receivable. As such, the loss for the year and the warrant fees receivable had been understated and overstated by that amount respectively.
- (j) The income from stall rent amounting to Rs.1,726,367 receivable for the year 2015 of the Central Bus Stand had not been brought to account.
- (k) The value of condemned buses at the end of the year under review amounted to Rs.1,592,669,139 and the scrap value of a bus had been identified as Rs.1,000. Nevertheless, overprovision of Rs.2,924,746 had been made for depreciation exceeding even that scrap value.

2.2.4 Unexplained Differences

The following observations are made.

- (a) According to the comprehensive income statement of the year under review, the depreciation value for property, plant and equipment was Rs.2,146,560,160. However, depreciation value had been shown as Rs.2,147,944,061 under operations in the cash flow statement. As such, a difference of Rs.1,383,901 was observed.
- (b) According to the financial statements of the Board for the year under review, an income of Rs.60,759,000 from sale of 427 buses had been brought to account as other income. However, according to the information of the Technical Division, it was recorded that an income of Rs.85,424,111 had been received by sale of 584 buses. As such, according to the income shown in the financial statements and the books of the Technical Division, a difference of Rs.24,665,111 was observed.
- (c) According to the financial statements of the Driver Training School in Kalutara, a sum of Rs.3,091,346 from the Badulla depot and a sum totalling Rs.6,756,442 from Uva and Sabaragamuwa regional depots and the Kataragama depot had been shown as receivable as at 31 December of the year under review. Nevertheless, according to the financial statements of the Badulla depot, only a sum of Rs.2,871,970 had been shown as balance payable.
- (d) According to the financial statements of the Board, a sum of Rs.1,033,171 had been shown as cash receivable from the Udahamulla Driver Training School to the Head Office. However, according to the accounts of the Udahamulla Driver Training School, the amount payable to the Head Office had been Rs.570,834. As such, the difference was Rs.462,337.

2.2.5 Suspense Accounts

The credit balance which amounted to Rs.3,941,993 after adjusting the debit and credit balances in the Suspense Account, had not been settled from a long period.

2.2.6 Lack of Evidence for Audit

Due to lack of evidence indicated against the following transactions, they could not be satisfactorily vouched or accepted in audit.

Item of Account -----	Value ----- (Rs.)	Evidence not made available -----
(i) Trade Creditors	228,781,504	Detailed Schedules and Age Analyses
(ii) Workshop Creditors	64,187,315	
(iii) Cashiers' shortages	1,271,364	
(iv) Conductors' irregularities	15,249,736	
(v) Sundry Debtors	99,647,683	Details of officers who had been paid Schedules
(vi) Income Receivable	253,051,561	
(vii) Gratuity	3,641,172,333	
(viii) Trade Debtor balance	3,193,451	Letters of Confirmation of balances for 91 accounts
(ix) Current Accounts, Savings Accounts and Fixed Deposit Accounts	2,087,218,462	
(x) Lands and Buildings	319,799,318	Register of Assets, Detailed Schedule and Assessment Reports
(xi) 06 Journal Entries	5,016,723,610	Details relating to Journal entries
(xii) Stocks	744,821,576	Detailed stock reports
(xiii) Performance Bonds	1,312,727	Detailed documents
(xiv) Construction of the Horowpathana new depot	4,548,536	Letters with approval for exceeding the estimated amount
(xv) Discounts on income from warrants	399,385,714	Documents and registers on approving discounts
(xvi) Balances not credited to the bank	2,843,042	Age Analysis of credit balances
(xvii) Balances debited in excess to the cash book	457,460	Letters on Confirmation of Period, Detailed Schedules
(xviii) Cheques not debited shown in the Bank Reconciliation Statement	7,090,334	Letters on Confirmation of Balances and Detailed Schedules

(xix) Inactive accounts - debit	9,935,375,095	Age Analyses and Letters on Confirmation of Balances
(xx) Inactive accounts - credit	26,054,948,782	Age Analyses and Letters on Confirmation of Balances

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Sums of Rs.1,569,519 and Rs.2,174,792 had been recoverable to the Giriulla and Alawwa depots from the Treasury as salaries paid to employees who died due to terrorist activities during the period from the year 2003 up to the year 2009.
- (b) The security officers of the Sri Lanka Transport Board were deployed in the service of the Department of Motor Traffic, Ministry of Private Transport Services, National Transport Commission and the National Transport Medical Institute and salaries and allowances of Rs.40,604,269 had been paid in the year under review to those security officers by the Board. A sum of a further Rs.36,922,769 had not been reimbursed from the year 2013 up to 31 December 2015.
- (c) Action had not been taken to settle balances totalling Rs.12,070,995 older than 10 years payable to external parties relating to 5 regional depots.
- (d) Action had not been taken even up to the end of the year under review to recover an outstanding cashier balance of Rs.33,662,732 of the Badulla depot brought forward since the year 2011 and receivable balances of Rs.9,260,302 and Rs.8,455,334 of the Monaragala and Badulla depots respectively.
- (e) According to the information made available to Audit, a sum of Rs.1,778,661,537 representing 93 per cent and a sum of Rs.721,380,174 representing 38 per cent had been advances granted before 01 year and 2 years respectively as per the Age Analysis relating to balances unsettled in the Purchase Advances Account and they had not been settled.
- (f) Out of income receivable relating to a bank account, a sum of Rs.193,375,188 had remained outstanding and the amount receivable relating to the Provident Fund Loan Account represented 81 per cent out of the said amount and no Age Analysis had been submitted therefor.
- (g) Income from Army warrants and special rents of Rs.41,784,537 and Rs.188,616,652 respectively, receivable as at 31 December 2015, had not been recovered.
- (h) The balance under income receivable from the year 2008 to 31 December 2015 of the Bandarawela depot had been increasing from Rs.1,108,756 to Rs.12,537,456 while the percentage of non-recovery had been ranging from 43 per cent to 90 per cent accordingly.
- (i) The electricity and water charges billed for the stalls rented out by the Central Bus Stand relating to the year 2015 amounted to Rs.2,314,383 and Rs.1,197,133 respectively. Moreover, only the values of Rs.1,816,471 and Rs.866,601 received by cash respectively during the relevant period had been brought to account. As such, balances and income receivable amounting to Rs.828,444 had not been accounted for.

- (j) A sum of Rs.1,863,414 is being brought forward since the year 2009 as outstanding income from stall rent of the Central Bus Stand and no action had been taken to recover that amount even by the year under review.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliances
(a) Section 11 of the Finance Act, No.38 of 1971 and Section 8.2.2 of Public Enterprises Circular No. PED/12 of 02 June 2003	Even though a sum of Rs.19,733,819 had been invested in fixed deposits in the year under review, the concurrence of the Minister of Finance and the approval of the Minister in charge of the subject had not been obtained therefor.
(b) Section 16 of the Employees Provident Fund Act, No.15 of 1958 as amended by Act, No.26 of 1981	Contributions amounting to Rs.1,662,003,377 of the Head Office and regional offices of the Board had not been remitted to the Employees Provident Fund.
(c) Section 5(1) of the Payment of Gratuity Act, No.12 of 1983 and (Amendment) Act, No.62 of 1992	Gratuity should be paid within 30 days of termination of services. Nevertheless, action had not been taken even up to the end of the year under review to make gratuity payments of Rs.67,244,193 payable to 172 employees of 5 depots who had retired in 2015 and in preceding years despite a delay ranging from 1 year to 19 years as at 31 December 2015.
(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 177 (1)	The monies received should be remitted either daily or at the earliest possible opportunity. A sum had been deposited less by Rs.34,249,522 relating to the period from the year 2012 up to the year 2015 of the Badulla depot. However, the depot had not identified the said deposits by less amounts and taken action in that connection.
(ii) Financial Regulation 177 (3)	An income of Rs.1,214,386 collected in the years 2014 and 2015 by the Walapone and Theldeniya depots had not been banked even up to 31 December 2015.

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| (iii) Financial Regulation 395 (b) | Out of 156 bank current accounts maintained by the Board, Bank Reconciliation Statements relating to 59 current accounts had not been made available to Audit in the year under review. |
| (iv) Financial Regulation 395 (e) | According to audit test checks, schedules on cheques issued but not presented for 7 bank accounts totalling Rs.20,838,069 and cheques deposited but not realized for a bank account totalling Rs.129,845 had not been mentioned in the bank reconciliation statement. |
| (v) Financial Regulation 395 (h) | Out of 95 bank accounts presented to Audit relating to December of the year under review, 58 cheques issued but not presented for payment shown in the bank reconciliation statements of 15 bank accounts with a lapse of 06 months, totalled Rs.1,880,020. Even though these cheques remained for about a period of 04 years, action had not been taken in terms of Financial Regulations. |
| (vi) Financial Regulation 396 (d) | In the assignment of duties to officers, the duty of preparing bank reconciliation statements should be assigned to a person who has no connection in preparing the cash book. However, it had not been so done. |
| (vii) Financial Regulation 757 | Action had not been taken to conduct a Board of Survey for the year under review and to present the relevant reports to the Auditor General. |
| (e) Treasury Circular No. 842 of 19 December 1978 | Even though the Board owned property, plant and equipment valued at Rs.11,633,840,656, as at the end of the year under review, a Register of Fixed Assets had not been maintained in an updated manner so as to include all those assets. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year ended 31 December 2015 had been a deficit of Rs.751,260,743 as compared with the corresponding deficit of Rs.1,228,021,529 in the preceding year, thus indicating a decrease in the deficit by Rs.476,760,786 for the year under review as compared with the preceding year. Even though the operating expenses and administrative expenses of the Board had increased by

Rs.4,566,344,326 and Rs.1,612,418,157 respectively, the increase in passenger transport income and other income by Rs.7,045,280,367 had mainly attributed to the decrease in the above deterioration.

An analysis of financial results for the year under review and four preceding years revealed that the deficit of the Board had gradually increased from the year 2011 to the year 2012 while the deficit from the year 2013 to the year 2015 had gradually decreased.

Taking into consideration the employees' remuneration and depreciation on non-current assets, the contribution of the Board had improved in the year 2012 as compared with the year 2011 and the contribution which was Rs.11,499,778,412 in the year 2012 had continuously improved up to Rs.21,644,512,472 in the year 2015.

4. Operating Review

4.1 Performance

In terms of the Sri Lanka Transport Board Act, No. 27 of 2005, the objectives of the Board, are as follows.

- To provide in consultation with the National Transport Commission and relevant Provincial Transport Authorities an efficient regular omnibus service which is efficient and effective ensuring economic viability;
- In order to achieve the above objective, the Board shall prepare an annual plan embodying its proposals identifying the manner in which implementation is to be carried out, along with the identification of the relevant stakeholders responsible for the different proposals and the likely time frames involved in the implementation of the entire plan. An annual budget in relation to the Annual Plan shall also be prepared accordingly;
- To conduct the business of the Board in such a manner that the entire operations of the Board will be conducted and maintained in order to ensure viability of such operations to the maximum extent possible
- To implement any other scheme or service in the transport sector, that will enhance the quality of public transport.

The following observations are made in respect of the performance of the year under review in accordance with the Action Plan, Progress Report and the Budget prepared as per the Corporate Plan relating to the achievement of the objectives of the Board in the year 2015.

- (a) Attention had not been drawn in preparing the Corporate Plan on the following activities that could have been implemented in accordance with the powers vested in the Board in terms of Sri Lanka Transport Board Act, No. 27 of 2005.

- Providing bus halts or shelters for the road passengers transported by the Board.
 - Providing bus services for the routes considered by the Board as being difficult or impractical.
 - Supplying and maintenance of places for stopping the buses belonging to the Board.
- (b) The following observations are made in respect of targets intended to be achieved during the year according to the Action Plan of the year 2015.
- (i) Even though it had been targeted to increase the number of buses operated daily up to 6,000, according to the reports of the Planning Division, only 5,270 buses had been operated per day. As such, it had failed to reach a target of 12 per cent.
 - (ii) Even though the number of kilometers expected to be operated in the year 2015, stood at 643,184,516, only 440,424,544 kilometers had been operated. As such, out of the targeted number of kilometers, 202,759,972 kilometers representing 31.5 per cent could not be operated.
 - (iii) Even though it had been planned to increase the daily route income up to Rs.80 million, only a sum of Rs.66 million had been earned. Accordingly, 17.5 per cent of the expected target could not be achieved.
- (c) It had been targeted to repair and get into operating condition, the buses which should be totally repaired and the buses which are being removed from operating due to minor repairs occurred daily. Even though the total fleet of buses existed as at 31 December 2015 stood at 7,797, out of them, 1,511 buses or 20 per cent were not in operation due to following reasons.

Description	Number of Buses not in operation
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Buses not operated without tyres, tubes and batteries	169
Buses not operated without units and sub-units	400
Buses which are in dock	90
Buses being repaired due to accidents	77
Buses being repaired due to minor mechanical defects	261
Buses not operated due to repairs of units	226
Buses not operated due to major repairs	260
Buses which are not economically benefitted by repairing	28
Total	1,511
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Five hundred and sixty nine buses had not been operated due to unavailability of tyres, tubes and sets. Moreover, 778 out of the said fleet of buses had been older than 15 years.

- (d) Provisions of Rs.880 million had been made by the Board relating to the year 2015 for the project of rehabilitation of buses and adding them to the fleet of buses and a sum of Rs.1037.12 million had been received during the year 2015 from the Treasury. Even though the Board had spent that total amount of Rs.1,917.12 million, according to the reports of the Planning Division, out of the targeted number of buses for rehabilitation, 861 buses or 48 per cent could not be rehabilitated. Detailed information on the achievement of expected targets is given below.

Description	Year 2015		
	Target	Actual Position	Quantity not achieved
Engine Sets	720	500	220
Gear Boxes	720	173	547
Bus Bodies	360	266	94
Total	1,800	939	861

4.2 Management Activities

The following observations are made.

- (a) Lands of 127 acres in extent belonging to the Board are enjoyed by other institutions and persons. However, the Management had not taken action to acquire, legally vest or sell those lands.
- (b) Even though the lands of 18 acres in extent located in Colombo District are used by the Board on long term lease basis, action had not been taken even by 15 September 2017, the date of audit, to obtain Grants which should be obtained according to the Land Ordinance.
- (c) The building and the land of 3.4125 hectares in extent, located at Park Road, Colombo 05 obtained on lease basis from 26 July 1966 belonging to the Anderson Golf Links Ground, Shalika Hall and Ground had been shown under lands and buildings in the financial statements to the value of Rs.300,000. Nevertheless, the legal ownership of that land had not been obtained by the Board. According to the approval of the Cabinet of Ministers dated 18 February 2009, the purpose of obtaining a Grant for this land had been assigned to the Divisional Secretary. However, a Grant had not been obtained even by 15 September 2017, the date of audit.
- (d) According to the Cabinet Decision No.අමප 04/1196/023/015-I dated 15 September 2004, the land of 160.02 perches in extent (0.4055 hectares) called Thahanam Kele

depicted in the Preliminary Plan No.9167, located at Dehiwala Road, Maharagama, owned by the Sri Lanka Central Transport Board had been handed over to the Urban Development Authority by the Board on 09 November 2004. This land had been valued by the Chief Government Valuer to the value of Rs.112,000,000 in February 2016 and action had not been taken to recover this amount even by 15 September 2017, the date of audit.

- (e) Even though the land of 26.5 perches in extent, located at No.175, Galle Road, Ratmalana, acquired under the Motor Transport Act, No.48 of 1957 had been granted to the District Secretary for the establishment of the Divisional Secretariat, Ratmalana, action had not been taken to value the said land and to recover moneys.
- (f) In the purchase of spare parts for the Depots belonging to the Sri Lanka Transport Board, the Head Office had selected suppliers and made payments therefor. However, the suppliers had supplied spare parts directly to the Depots. Moreover, the unsettled balance of advances of Rs.1,831,859,235 that remained in the Purchase Advance Account of the Head Office as at 31 December 2014 had increased to Rs.1,907,294,471 as at 31 December 2015 due to the failure in submitting the relevant invoices and the goods received notes to the Head Office by the Depots. Even though payments should be made after receipt of Goods, taking action in purchase of spare parts contrary to that, had been the reason for the increase in the balance of advances.
- (g) Lease agreements are valid by 31 December 2015 only for 9 out of 58 stalls situated at the Central Bus Stand and lease rental agreements in remaining 49 agreements were out dated. Further, it was observed that certain agreements out of them have been remaining since the year 1970 and action had not been taken to update those lease agreements by relevant Divisions.
- (h) The Central Bus Stand had installed sub water meters and sub electricity meters and provided water and electricity for stalls leased out and the amount recovered by billing them for the year 2015 had been Rs.1,197,133 and Rs.2,314,394 respectively. However, the Central Bus Stand had paid Rs.7,130,972 and Rs.7,975,010 for water and electricity respectively. As such, the additional expenditure incurred for water and electricity by the Central Bus Stand had been Rs.5,933,839 and Rs.5,660,616 for the year under review. When the units of electricity and water consumed are increased, the rate as well is increased and as a result, the Central Bus Stand should pay more money and it was further observed that in the recovery of water and electricity bills from stall owners, recovery of low rates without considering it had been the reason for this position.

4.3 Operating Activities

The following observations are made.

- (a.) The loan installments amounting to Rs.84,733,235 recovered by the end of the year under review from the loans granted to the employees from the Employees' Penalty Fund Account in view of employees welfare, had been retained without crediting to the relevant Fund.

- (b.) Loan installments of Rs.249,486,944 deducted from the salaries of the employees with respect to the loans granted to the employees from the Provident Fund of the Board, had been retained by the Board without being credited to the relevant fund. The Provident Fund of the Board has been abolished at present and as such, the information as to the settlement of those funds was questionable in audit.
- (c.) Despite having paid a sum of Rs.7,912,368 for constructions of Phase 02 of the Katharagama Rest House, the contractor had abandoned the project halfway on 20 June 2013 and as a result, a loss had been sustained by the Board and action had not been taken to recover that loss from the officers who are responsible in respect of the failure to cash the performance bond of Rs.658,351 before its maturity in terms of the contract agreement to minimize the loss.
- (d.) In terms of the Gazette Extraordinary No.1533/16 of 25 January 2008 and the National Environment Act, No.47 of 1980, a licence should be obtained therefor by all Depots from which motor vehicle services are carried out. However, according to the information made available, it was observed that only 7 Depots in 6 regional offices had obtained this licence and 35 Depots had not obtained licences.

4.4 Apparent Irregularities

In making payments to a private company for supplying suspension blades produced under the name Napco for Depots belonging to the Sri Lanka Transport Board from the year 2012 to the year 2015, a sum of Rs.127,150,000 had been paid by the Board as per the request made by the Napco Company for obtaining money recoverable, without verifying the receipt of suspension blades in terms of Financial Regulations 137 and 138. Nevertheless, the supplier had not supplied relevant suspension blades even up to 31 December 2017.

4.5 Identified Losses

The following observations are made.

- (a) A sum of Rs.2,718,706 had been paid as surcharges in the year 2015 due to failure in making proper payments to the Ceylon Petroleum Corporation for obtaining fuel by the Depots in Wariyapola and Mahawa.
- (b) Sums of Rs.5,291,223,198 and Rs.52,065,963 to be credited to the Employees' Provident Fund and the Employees' Trust Fund of the Central Bank of Sri Lanka respectively had not been remitted on the due date. As such, sums of Rs.124,276,193 and Rs.11,458,689 had to be paid as surcharges to the Employees' Provident Fund and the Employees' Trust Fund respectively by the end of the year under review.
- (c) Provisions for the contribution amounting to Rs.45,491,197 which should be credited to Employees' Provident Fund on behalf of the Head Office had not been made in the year under review and it was observed that a surcharge of Rs.12,728,496 had to be paid by the Board according to the Employees' Provident Fund Act.

4.6 Resources of the Board released to other Government Institutions

The following observations are made.

In terms of Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003, resources of the Board should not be released to external institutions. However, officers and motor vehicles of the Security Division of the Board had been released to the Ministry of Transport. Moreover, a sum of Rs.4,723,789 had been paid by the Board for the year 2015 as salaries and allowances for security officers who had been released to the Ministry of Transport. Three motor vehicles obtained on monthly hire basis had been released to the Ministry of Transport and Office of the Deputy Minister of Transport and the expenditure on fuel thereof had been incurred by the Board and further, sums of Rs.356,852 and Rs.393,392 had been paid by the Board as hiring charges of 03 motor vehicles and as salaries and overtimes of drivers respectively.

4.7 Transactions of Contentious Nature

The following observations are made.

- (a) A number of 143 buses costing Rs.97,462,160 had been handed over to the Wesco Institution for rehabilitation in the year 2002. However, that institution is inoperative by now and as such, there is a risk of getting down those buses again by the Board. However, no adequate disclosure had been made in that connection in the accounts of the year under review.
- (b) According to the information of the Board, a sum of Rs.3,695,712,194 had been recovered from the employees' salaries as the contribution to the Employees' Provident Fund from the year 2010 to the year 2015. However, those moneys had not been properly remitted to the Employees' Provident Fund maintained by the Board and as such, the employees had been deprived of the interest receivable for the relevant period.

4.8 Staff Administration

The following observations are made.

- (a.) In accordance with Section 9 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, an organization chart, a Scheme of Recruitment, and a Scheme of Promotion had not been prepared for the Sri Lanka Transport Board, and the approval of the Department of Management Services had not been obtained therefor.
- (b.) The posts of drivers of the Board ranged from an excess of 28 per cent to a dearth of 35 per cent, whilst the posts of conductors ranged from an excess of 51 per cent to a dearth of 36 per cent. However, there had been 25 Depots with excess number of drivers and conductors and no action had been taken to remedy the dearth of drivers and conductors by attaching the said excess staff to the Depots lacking the drivers and conductors. Furthermore, according to the information on the cadre presented to the Audit as at 01 May 2015, a number of 235 drivers and 528 conductors had been deployed in inappropriate duties.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, financial statements and the draft Annual Report for the year under review should have been presented to Audit within 60 days of the closure of the year of accounts. However, the financial statements for the year 2015 had been presented only on 19 July 2017, after a delay of 01 year and 05 months.

5.2 Action Plan

In terms of Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, an Action Plan should be prepared to enable the achievement the objectives and targets within the planned period by clearly identifying Management's responsibility. Nevertheless, the Action Plan had been prepared without considering the financial position of the Board by including objectives and targets which could not be achieved.

5.3 Procurement Plan

A Master Procurement Plan had been prepared by the Board in terms of Guideline 4.2 of the Government Procurement Guidelines 2006. Even though the procurement activities envisaged at least for a period of 3 years should be listed in the Master Procurement Plan in terms of Guideline 4.2.1 (b), the Master Procurement Plan presented had not been so prepared.

5.4 Budgetary Control

The following observations are made.

- (a) The Sri Lanka Transport Board had prepared the budget and the financial statements for the year 2015 in a manner that they cannot be compared with each other. As such, variances were observed between the budgeted and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of financial control.
- (b) An examination on expenditure that could be compared in audit, revealed variances ranging from 4 per cent to 99 per cent between the budgeted and actual values of 19 Items of Expenditure of the Board.
- (c) The budgeted income of the Board totalled Rs.44,417,885,626 whereas the actual income totalled Rs.39,828,386,904, thus observing an unfavourable variance of Rs.4,589,498,722 representing 10.34 per cent.

5.5 Performance of the Environmental and Social Responsibility

In terms of Gazette Extraordinary No. 1533/16 of 25 January 2008 of the Democratic Socialist Republic of Sri Lanka and Section 23 of the National Environmental Act, No.47 of 1980, a license should be obtained under the aforesaid section being activities which involves or results in discharging, depositing or emitting waste into the environment causing pollution. In terms of that Gazette, a Certificate of Conformity should be obtained for every motor vehicle being used in Sri Lanka by performing an emission test and according to the Order No.09, it has been mentioned that buses as well are entitled to the term motor vehicle. Therefore, emission test certificates should be obtained for buses belonging to the Sri Lanka Transport Board. However, according to the information of 10 Regional Offices, emission test certificates had been obtained only for 550 out of the total of 6,729 buses in the year 2015. Accordingly, 92 per cent out of the total number of buses had been run without undergoing emission tests. As such, Government institutions had not taken action in compliance with environmental laws and regulations causing vast environmental damage.

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 Board from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
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(a.) Control of Fixed Assets	(i) Failure to maintain a Register containing information of the buses belonging to the Board.
	(ii) Weakness in the internal control relating to purchasing and accounting of assets.
	(iii) Failure to conduct annual verifications of assets.
(b.) Financial Control	(i) Failure to take prompt action to recover the funds receivable and failure to take action to pay the funds payable.
	(ii) Failure to prepare bank reconciliation statements accurately.
	(iii) Failure to maintain Registers of Advances.
	(iv) Failure to maintain registers for surety deposits of the employees, and spending the funds of the employee surety deposits on the expenses of the Board.
	(v) Maintenance of bank current accounts without a requirement and failure to reconcile and adjust them by the Financial Division.

- (c) Settlement of Advances
 - (i) Failure to take action to settle the advances immediately after completion of the relevant purpose.
 - (ii) Failure to reconcile and adjust on timely basis.

- (d) Control of Income
 - Failure to use printed invoices with serial numbers for collecting income from warrants.

- (e) Stores Control
 - (i) Failure to report to the Head Office the information relating to the goods supplied by suppliers directly to the Depot after being ordered by the Head Office, and failure to reconcile them.
 - (ii) Receipt of Goods without testing.