

Sri Lanka Transport Board – 2016

The audit of financial statements of Sri Lanka Transport Board for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. 20, 851,282,909 and 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 32 per cent of the total current liabilities during the period from 2011 to 2015 and this level had been at 49 per cent in the year 2016. 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 observations are made.

(a) Sri Lanka Accounting Standard 16

- (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 assets valued at Rs.81, 415,892 purchased and utilized in the year under review.
- (ii) The buses value of Rs. 1,367,754,792 of the bus fleet of the Board had been condemned at the year under review and the depreciation value of those buses were Rs. 1,370,972,541. Even though, those buses had been removed from the use it was shown as fixed assets in the Statement of Financial Position. Overprovision of depreciation by Rs. 3,217,749 had been made exceeding the cost of condemned buses.
- (iii) Even though motor vehicles valued at Rs.1,041,195 had been condemned in the year under review, depreciation provisions amounting to Rs.520,385 had been made available for those condemned motor vehicles and those motor vehicles had been stated under Fixed Assets in the statement of financial position instead of taking action to dispose them.
- (iv) 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.319,799,318 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 as the value of buildings. As such, depreciation of Rs.1, 005,499 had been made as at 31 December year 2016 exceeding the cost of buildings.

(b) Sri Lanka Accounting Standard 17

- (i) In terms of Paragraph 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.7, 383,195,074 under lease liability.
- (ii) The following disclosures had not been made in relation to lease.
- 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 05 years and over 05 years.

(c) Sri Lanka Accounting Standard 19

In terms of paragraph 57 of the Standard, the post- employee benefit liability should be estimated based on the Projected Unit Credit Method. In contrary to that, 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 Policies

An accounting policy had not been established by Board to recognize the Computer Software as Intangible Assets. As such, amortization amount of Rs. 2,377,621 had not been provided for the Software purchased for Rs. 9,510,486 in the year 2015.

2.2.4 Accounting Deficiencies

The following observations are made.

- (a) As a result of accounting the rent income, electricity and water charges billed for the stalls rented out by the Central Bus Stand on cash basis, accrued rent income amounting to Rs. 3,199,955 and accrued electricity and water bills income amounting to Rs. 773,967 had not been accounted relating to the year under review.
- (b) The bank charges sum of Rs. 147,965 had not been accounted from the year 2013 to 2016
- (c) According to the Board of Survey Report of the Head office, 11 inventory items value of Rs. 1,107,267 including passenger's ticket books, coupons of senior citizens were obsolete. However, the inventory value had been overstated by similar amount due to non-removal of such value from the inventory.

(d) The direct receipts of Sisu Sariya and Nana Sariya income to current accounts from National Transport Commission relating to the Udugama Depot amounts of Rs. 378,072 and Rs. 793,164 respectively had not been recognized and accounted.

(e) Amount of Rs.32, 436,777 had been incurred to construction of buildings at new depot at Horowpathana and it has been utilizing from 11 June 2012, and such amount incurred for its constructions had been shown as Work-in-Progress. As such, depreciation of building had been understated by Rs. 810,919.

2.2.5 Suspense Accounts

Actins had not been taken to clear the balance of Rs. 390,910 in the Suspense Account in the Financial Statements for the year under review.

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) Inactive accounts		} Age Analyses and Letters on Confirmation of Balances
- Debit	9,935,459,128	
- Credit	26,054,954,882	
(ii) Fixed Deposit at Bank of Ceylon	6,905,000	} Deposit Certificates
(iii) Cash Balance	1,856,558,905	} Detailed Schedules and Balance Confirmations for each Depot separately
(iv) Bank Overdraft	889,251,471	
(v) Trade Creditors	2,434,887,483	
(vi) Other Creditors	137,398,234	
(vii) Cashiers' shortages	34,776,498	
(vii) The balance of Conductors' irregularities	11,595,695	
(viii) Sundry Debtors	101,155,750	
(ix) Income Receivable	233,785,840	
(x) Trade Debtor Balance	19,632,110	} Detailed Schedules
(xi) Saving Accounts	31,297,381	} Balance Confirmations for 11 Accounts
(xii) Land and Building	319,799,318	} Register of Assets, Detailed Schedule and Assessment Reports
(xiii) Stocks	817,776,589	} Detailed Stocks Reports
(xiv) Cancelled Cheques	7,138,279	} Detailed Schedules and Age Analysis
(xv) Payments for Third Parties (Salary Reduction)	49,013,863	

2.2.7 Unexplained Differences

According to the Financial Statements of the Board as at 31 December 2016, payable to Employee provident Funds and penalties totaled was Rs. 3,720,781,715 whereas, according to the records of Employee Provident Fund recoverable amount was Rs. 5,343,474,711. Therefore, a difference of Rs. 1,622,692,996 was observed in the payable balance for the year under review.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken even up to the end of the year under review to recover an outstanding income from stall rent of the Central Bus Stand amount of Rs.1, 863,414 since the year 2009 and Rs.5, 368,009 from the year 2014.
- (b) The recoverable License Income of the Head Office as at 31 December of the year under review was amounting Rs. 142,466,102 which included amount of Rs. 12,783,486 over one year. Action had not been taken by the Board to recover this money.
- (c) Out of total unsettled amount of Rs. 1,635,847,558 in the Purchase Advances Account, a sum of Rs.1,633,859,392 or 99 per cent was unsettled for periods of one year to three years and a sum of Rs.649,682,474 or 40 per cent had not been settled over 03 years.
- (d) The receivables income balances from Badulla and Bandarawela depots for the year under review were Rs.2,917,799 and Rs. 2,415,070 respectively and those were outstanding for longer period.
- (e) Actions had not been taken to recover the provident fund loan receivable amount of Rs. 187,514,112 includes under receivable income balance of Rs. 233,785,840 in the statement of Financial Position during the year under review.
- (f) A sum of Rs.29,109,121 of receivable income from Reginal Office of Colombo, depots of Balangoda and Avissawella were outstanding for a periods from 05 to 10 years.
- (g) Receivable income balances of Rs.3,609,145 and Rs. 11,076,232 from Dabulla and Monaragala depots respectively were brought forward since the year 2012 without clear.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations and management Decisions	Non-compliances
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| (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.479,094,484 had been invested in fixed deposits and Treasury Bills as at 31 December 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. |
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- (b) Section 16 of the Employees Provident Fund Act, No.15 of 1958 as amended by Act, No.26 of 1981
- Even though the contribution of each month to be credited to the Employee Provident Fund before the end of following month, an outstanding contribution balance amount of Rs.3,576,839,351 of the Head Office and regional offices were exist as at 31 December 2016.
- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 395 (b)
- Bank Reconciliation Statements relating to 62 current accounts maintained by the Board had not been made available to Audit in the year under review.
- (ii) Financial Regulation 395 (e)
- Information relating to the cheques issued but not presented and cheques, deposited but not realized for 03 bank accounts totaling Rs. 9,179,791 had not been presented.
- (iii) Financial Regulation 395 (h)
- 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, the duty of preparing bank reconciliation statements had been assigned to the persons who preparing the cash book.
- (iv) Financial Regulation 396 (d)
- Action had not been taken in terms of Financial Regulations for the 67 cheques issued but not presented for payment of 14 bank accounts totalling Rs 5,029,620 with a lapse of 06 months.
- (d) The Government Procurement Guidelines and Hand Book of 2006
- Procurement of Tires value for Rs. 775,655,613 during the year under review.**

- (i) Guideline 4.2.3
- Procurement Time Table with the complete Procurement process had not been prepared
- (ii) Guideline 5.3.11
- Even the bid security period to be valid for 14 days after the validity period of bids, it was not complied.

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| (iii) | Guideline 5.4.8 | The validity periods of the Performance Security had not been valid till 28 days beyond the intended dates of goods supply. |
| (iv) | Guideline 6.3.3 | All the member of the Bid opening Committee had not been signed in the Bid Security Certificate as per the requirement of Bid Opening Procedure |
| (v) | Guideline 7.4 | Bid Evaluation Report had not been completed by the Technical Evaluation Committee before completion of fifty per cent of Bid validity period. |
| Procurement of Suspension Blades value of Rs. 52,759,716 during the year under review. | | |
| ----- | | |
| (i) | Guideline 5.3.2 | The Invitation to bid had not contained the basic important information. |
| (ii) | Guideline 5.4.8 | The validity periods of the Performance Security had not been valid till 28 days beyond the intended dates of goods supply. |
| (e) | Treasury Circular No. 842 of 19 December 1978 | An updated Fixed Asset Register containing all the assets had not been maintained at the end of the year under review even amount of Rs.29,063,501,009 Property Plant and Equipment were owned by the Board. |
| (f) | Sections 05,14,08,09 of the Lease agreements the stalls rented out by the Central Bus Stand | Water bills and Electricity bills had not been paid promptly. |
| (g) | The agreement entered by Board with CEAT Company to procurement of tires | |
| (i) | Terms No. 7.2 | The delivery of tires had been delayed ranging from 16 days to 180 days even it should be delivered within a week after the order. |
| (ii) | Terms No. 8 | Interest had not been charged as per the term on delaying the delivery of goods. Accordingly, interest on delay amount of Rs. 734,751 relating to 04 orders under the voucher No. 902 had not been charged. |
| (iii) | Terms No. 10.4/10.5 | Actions had not been taken as per the terms even, according to the new tires operating report, the number of kilo meters run were below as required. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year ended 31 December 2016 had been a deficit of Rs. 632,619,173 as compared with the corresponding deficit of Rs.751, 260,743 in the preceding year, thus indicating a decrease in the deficit by Rs.118,641,570 for the year under review as compared with the preceding year. Increase in income by Rs.3, 638,684,574 and increase in Government Grants by Rs. 342,896,380 had mainly attributed to the decrease in the above deterioration.

An analysis of financial results for the year under review and 04 preceding years revealed that the deficit of the Board had gradually decreased from the year 2012 to the year 2016. Taking into consideration the employees' remuneration and depreciation on non-current assets, the contribution of the Board had improved in the year 2013 as compared with the year 2012 and the contribution which was Rs.12,709,377,743 in the year 2013 had continuously improved up to Rs.19,538,760,465 in the year 2016.

4. Operating Review

4.1 Performance

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 2016.

- (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 2016
 - (i) Even though it had been planned to earn daily route income of Rs. 65.5 million per kilometer, in the year 2016, only daily route income of Rs. 57.59 million per kilometer had been earned. Accordingly, Rs. 7.91 million of the target income could not be achieved.
 - (ii) Even though it had been planned to increase the daily route income up to Rs.87.06 million, only a sum of Rs. 71.08 million had been earned in the year 2016. Accordingly, Rs. 15.98 million of the target income 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 2016 stood at 7,768, out of them, 1,564 buses or 20 per cent were not in operation due to following reasons.

Description	Number of Buses not in operation
-----	-----
Buses not operated without tyres, tubes and batteries	111
Buses not operated without units and sub-units	424
Buses which are in dock	85
Buses being repaired due to accidents	55
Buses being repaired due to minor mechanical defects	218
Buses not operated due to repairs of units	254
Buses not operated due to major repairs	306
Buses which are not economically benefitted by repairing	111

Total	1,564

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535 buses had not been operated due to unavailability of tyres, tubes and sets. Moreover, 1,008 out of the said fleet of buses had been older than 15 years.

- (d) The Board required 9,192 drivers (as per duty) and 9,192 conductors to operate the buses in the year 2016. There were actual 9,954 drivers and 9,628 conductors. Accordingly, it was observed an excess of 762 drivers and 436 conductors when operating buses. However, it was observed the shortages and excess in drivers and conductors in several regional offices and depots due to inappropriate deploying the drivers and conductors among the Regionals and depots.
- (e) Provisions of Rs.800 million had been made by the Board relating to the year 2016 for the project of rehabilitation of buses and adding them to the fleet of buses and a sum of Rs.1084 million had been received from the Treasury and spent during the year 2016. According to the reports of the Planning Division, out of the targeted number of buses for rehabilitation, 1,539 buses or 65 per cent could not be rehabilitated. Detailed information on the achievement of expected targets is given below.

Description	Year 2016		
	Target	Actual Position	Quantity not achieved
-----	-----	-----	-----
Engine Sets	1,200	419	781
Gear Boxes	900	195	705
Bus Bodies	264	211	53
	-----	-----	-----
Total	2,364	825	1,539
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4.2 Management Activities

The following observations are made.

- (a) According to the section 14 and 16 of the lease agreements of the stall rent of the Central Bus Stand, lease agreement can be cancelled by a three month prior notice, if the payments of monthly lease installments are default continuously for three month by the lessee. Overdue rent income of stall number LH 32 and LH 34 and Toilet complex of the Central Bus Stand were Rs. 450,000 and Rs. 1,978,000 respectively as at 31 December 2016. However, it had not been acted as per the agreements even lease installments had been defaulted continuously more than three months.
- (b) Lease agreements are valid by 31 December 2016 only for 9 out of 58 stalls situated at the Central Bus Stand and rent agreements in remaining agreements were out dated. Further, it was observed that certain agreements out of them have been remaining since the year 1970. Action had not been taken to update those rent agreements by the Board.
- (c) According to the information provided to the audit, in accordance with the Board decision No. 61 of 08 September 2016, monthly stall rent of the year 2016 had been amended by different rates. However, it was observed that the amended rent had not been received and a formal policy had not been applied when decide the new monthly rent charges. The variances were ranging from 0 per cent to 403 per cent between the monthly rent income as at 31 December 2015 and the monthly rent income as at 31 December 2016.
- (d) According to the billing policy of the Electricity Board and the Water Drainage Board, when the units of electricity and water consumed are increased, the rate as well is increased. Without considering it, an equal rate had been charged from lease holders using the sub water and electricity meters fixed at the stalls of the Central Bus Stand. As such, the excess payment of Rs. 12,117,837 over the amounts collected as water and electricity bills from lease holders for the year 2016 had been made by the Board as follows.

	Amount collected from lease holders during the year 2016	Amount paid by the Board during the year 2016	Excess payment over the amount Received during the year 2016
	Rs.	Rs.	Rs.
Electricity	2,520,495	9,156,041	6,635,546
Water	1,197,133	6,679,424	5,482,291
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Total	3,717,628	15,835,465	12,117,837
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- (e) Stall number LH 32 of the Central Bus Stand was having 4,788 square feet. Lease holder had used it to keep 10 air conditioned rooms. Even electricity bills amount of Rs. 175,815 were paid for the year 2016 on three phase power supply to that place, the amount recovered as electricity bills by the Board could not be revealed. Further, actions had not been taken to amend those unfavourable billing policies and agreed terms.
- (f) The director board had decided to appoint a committee on January 2016 to write off the inactive account balances. Appointment of representatives from the Ministry and Treasury had been delayed a year up to January 2017 and the recommendations of that committee had not been given to end of April 2018.
- (g) According to the additional requirement of the bid documents, a tire card with serial number for each tire to be issued to the SLTB by the tire supply organization, tire cards had not been supplied for 19,094 tires purchased from CEAT Company for the year 2016.
- (h) The Board had entered in to an agreement with CEAT International Tire Company on 06 May 2016 to purchase tires for the year 2016. However, in contrary to that, 34 new tires, 1,925 belts and 195 tubes had been purchased for the amount of Rs. 2,071,847 from other Companies.
- (i) In the past years, in the purchase of spare parts for the Depots, the Head Office had selected suppliers and made payments therefor. However, unsettled balances of advances of Rs. 1,907,294,471 had remained in the Purchase Advance Account as at 31 December 2015 and Rs. 1,635,847,558 as at 31 December 2016 due to the failure in submitting the relevant invoices and the goods received notes to the Head Office by the Depots. It was observed to audit that the settlement of advances was not done without delay.
- (j) According to the Report of Board of survey as at 31 December 2016, 140 inventory items including vehicle log books at the Head Office and Repair Kit Injector Pump valued at Rs. 17,159,995 had been recognized as slow moving items even it suit for use. It had not been disclosed in the Financial Statements prepared as at 31 December 2016.
- (k) 21 current accounts had been maintained only in the Head Office for varies purposes and total of debits Rs. 6,822,431,518 and total of credits Rs. 6,815,368,696 money had been transferred within the accounts. Therefore, it was observed that the internal control of the financial activities were weak.

4.3 Operating Activities

The following observations are made.

- (a) The contractor had stopped the construction of the construction of the Phase 02 of the Katharagama Rest House which was cost of Rs. 13,167,038 despite having paid a sum of Rs.7,912,368. However, action had not been taken to recover that loss the Board from the officers who are responsible in respect of the failure to cash the performance bond of Rs.658,351 before its maturity, dated 08 December 2013, in terms of the contract agreement to minimize the loss.
- (b) The Driver Training School had been accompanied with loss annually. Excess other staff had been allocated them compare to the Driver's Consultants. As a result, salaries and other allowances paid had been exceeded the income of the Driver Training Schools. The following informations are relating to the income, salary payments and assigning the staff of the Driver Training Schools of Pothuhara and Kaluthara for the year 2016.

	Driver Training School – Pothuhara	Driver Training School- Kaluthara
Loss for the Year 2016 Rs.	21,192,032	32,629,646
Income of the Year 2016 Rs.	8,769,875	7,617,748
Salaries and allowances paid in the Year 2016 Rs.	14,077,682	21,494,112
Total staff allocated	21	33
No. of Consultants in the allocated staff	04	06

4.4 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 financial statements the year under review.
- (b) According to the informations 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 and as such, the employees had been deprived of the interest receivable for the relevant period.

4.5 Apparent Irregularities

A payment amounting to Rs.127,150,000 had been made by the Board as per the request made for obtaining money recoverable to the Napco Company, mentioning that the suspension blades had been supplied despite suspension blades had been supplied, despite suspension blades manufactured under the brand name “Napco” for the Depots belonging to the Sri Lanka Transport Board by a company from the year 2012 to the year 2015, had not been supplied by the suppliers to the Board. Even though payments had been made without confirming that suspension blades had been received as per financial Regulations 137 and 138, action had not been taken to the disciplinary action relating to those officers and to take action recover those money.

4.6 Uneconomic Transactions

The following observations are made.

- (a) Even though Head Office to be remitted by the depots amount of Rs. 3,000 per day for a bus which was purchased under lease basis in the Years 2014 and 2015, at the end of the year under review, amount of Rs. 1,541,834,030 had to be received from depots.
- (b) The payment of lease rental of buses had been delayed by the Head office since the money had not properly remitted by depots and as such it had been paid amount of Rs. 67,076,082 as late charges.
- (c) A loan amount of Rs. 770,542,961 had been obtained in the year 2016 as the Board did not have sufficient money to pay the lease instalments and late charges and as such, amount of Rs. 43,587,110 had been paid by the Board as interest on loan in the year under review.

4.7 Identified Losses

As a result of, contributions to the Employees’ Provident Fund and the Employees’ Trust Fund had not been remitted on the due date; a surcharge of Rs. 143,942,364 and Rs.3,798,120 had to be paid respectively by the end of the year under review.

4.8 Staff Administration

In accordance with the 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.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of the 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 the Auditor General within 60 days of the closure of the year of accounts. However, the financial statements for the year 2016 had been presented only on 23 January 2018 after delay of 11 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

The following observations are made

- (a) 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 minimum of a period of 3 years should be listed in the Master Procurement Plan in terms of Guideline 4.2.1 (b), the presented Master Procurement Plan had not been prepared in accordance with that.
- (b) According to the Procurement plan of the Year 2016, even it had been planned to purchased tires as follows, but compare with the actual purchases tires had been purchased in less that had been range between from 56 per cent to 100 per cent.

Type of Tires	No. of Tires as per Procurement Plan	Actual No. of Tires	Difference	Difference as a percentage
750x16	72	-	72	100
825x20	4,800	1,074	3,726	78
900x20	36,000	15,924	20,076	56
1000x20	912	202	710	78
Total	41,784	17,200	24,584	

5.4 Budgetary Control

The following observations are made.

- (a) The Sri Lanka Transport Board had prepared a budget for the year 2016 and the financial statements for the year 2016 in a manner that they cannot be compared the information with each other. Therefore, it was observed that, the Board did not check whether any variances 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 management control.

- (b) As it were observed variances ranging from 11 per cent to 101 per cent between the budgeted and actual values of 15 Items of Income and Expenditure of the Board, it was observed that the budget had not been made use of as an effective management instrument of financial control.

5.5 Performance of the Environmental and Social Responsibility

The following observations are made.

- (a) 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 800 out of the total of 6,729 buses in the year 2016. 88 per cent out of the total number of buses had been run without undergoing emission tests and as such, it was observed that the environmental laws and regulations had been violated.

- (b) In terms of the Gazette Extraordinary No.1533/16 of 25 January 2008 and the National Environment Act, No.47 of 1980, a license should be obtained therefor by all Depots from which motor vehicle services are carried out. However, it was observed that only 7 out of 107 Depots had obtained these licenses.

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	<ul style="list-style-type: none"> (i) Failure to maintain a Register containing information of the buses belonging to the Board. (ii) The custody had not been handed over as ensure the security of the assets (iii) Weakness in the internal control relating to purchasing and accounting of assets. (iv) Failure to conduct annual verifications.
(b.) Financial Control	<ul style="list-style-type: none"> (i) Failure to take prompt action to recover the funds receivable and failure to take action to pay the funds payable. (ii) Maintenance of bank accounts without a requirement by the Financial Division. (iii) Failure to prepare bank reconciliation statements accurately.
(c.) Settlement of Advances	<ul style="list-style-type: none"> (i) Failure to maintain a Register of Advances. (ii) Failure to take action to settle the advances immediately after completion of the relevant purpose. (iii) Failure to supervise by responsible officer (iv) Failure to reconcile and settlement on timely basis.
(e.) Stores Control	<ul style="list-style-type: none"> (i) Receipt of Goods to the store without supervision by responsible officer. (ii) Failure to dispose the unusable items which come from longer periods (iii) 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. (iv) Failure to reconcile the inventory data and depots data.