

Vehicular Emission Test Trust Fund - 2017

The audit of financial statements of the Vehicular Emission Test Trust Fund of the Department of Motor Traffic for the year ended 31 December 2017, comprising the statement of financial position as at 31 December 2017, 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(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 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 Trust 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

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 risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks 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 evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Vehicular Emission Test Trust Fund as at 31 December 2017 and its financial performance and cash flows for the year then ended in terms of Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

A sum of Rs.405,852,746 received from sale of Treasury Bills in the year under review and the value of Treasury Bills amounting to Rs.10,966,964 purchased during the year should be shown separately in the cash flow statements under investment activities but only the net value of Rs.394,885,782, being set off the values each other had been shown under investment activities.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Fund had resulted in a surplus of Rs.187,356,003 for the year under review as compared with the surplus of Rs.197,173,302 for the preceding year thus indicating a deterioration of financial result of the year under review by Rs.9,817,299 as compare with the preceding year. Even though, the emission test charges had increased by Rs.7,086,755 as compared with the preceding year, increase of maintenance expenses and other operating expenses by Rs.2,980,381 and Rs.10,574,362 respectively had mainly attributed to this deterioration.

In analysing the financial results of the year under review and the preceding 4 years, the surplus of Rs.171,131,419 in the year 2013 had improved up to Rs.187,356,003 in the year 2017 with variances. However, after being re-adjusted employees remunerations and depreciation on non-current assets to the financial results, the contribution of Rs.185,139,458 in the year 2013 had increased to Rs.214,531,051 by the end of the year under review with variances.

3.2 Analytical Financial Review

The quick asset ratio of the fund for the year under review was 29:1 whereas it was 1131:1 for the preceding year. Accordingly, it was observed that very high working capital had been maintained by the Fund.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

- (a) A corporate plan for the achievement of the vision, mission and objectives of the Fund for a period not less than 3 years had not been prepared.
- (b) In terms of Public Finance Circular No.01/2014 of 17 February 2014, an action plan for the year 2017 had been prepared but the following weaknesses were observed therein.
 - (i) The action plan had not been prepared in a manner that the expected main functions to be accomplished and only 5 main functions had been included therein.
 - (ii) Many matters included in the action plan were not in active level and a lot of activities had been brought forward since several years.

4.1.2 Operation and Review

The following observations are made.

- (a) Even though, the projects such as the measurement of air circulation condition in Kandy area and creation of specimen forms and the case study project conducted based on schools belonging to the Colombo Municipal Limit to evaluate health levels associated with motor vehicles related air pollution had been executed, it was failed to perform sufficient activities to improve the condition of air, suitable for the upliftment of leaving condition of the people by reducing health risk, even by the end of the year under review.
- (b) Even though, the parties to be joined with for the operation of the affairs of the Fund are specifically stated in the Trust Deed, it was observed that without participating of those parties, the affairs of the Fund had been operated on the agreements entered into with various entities. As a result, affairs of the various projects executed by the Fund up to now had not been subjected to appropriate evaluation, survey or a review.
- (c) Even though, the supply of facilities and improvement for motor vehicle management is an objective of the Fund it was not observed that an appropriate procedure therefor had been implemented during the year under review.

- (d) A sufficient procedure had not been executed by the Fund in the year under review to find the activities of the entities which issued emission test certificates and out of 384 emission test centres existed in the Island, only 83 centres or 22 per cent had been examined by the Fund in the year under review.
- (e) Emission test certificates had been issued by 2 companies which carried out emission tests for 4,545,537 vehicles during the year under review out of which road tests had been carried out only 3,971 vehicles by the Fund. It had been as low value as 0.09 per cent of the emission certificates issued.
- (f) Out of 3,971 vehicles subjected to road tests carried out by the Fund 1425 vehicles had been identified as substandard. Only the revenue licence of the relevant vehicles for the year under review had been retained by the Emission Test Trust Fund and the vehicles had been released. As the particulars of licences so retained had not been informed the issuance authorities, it was observed that there would be possibilities that the revenue licences would be obtained again by informal manner.

4.2 Personnel Administration

The following observations are made.

- (a) Even though, a cadre consisting of 47 officers had been approved by the Department of Management Services of the Treasury, action had not been taken to recruit the cadre properly.
- (b) In order to perform the functions of the Fund, 19 persons had been recruited since the year 2011 on contract basis for a maximum service period of 2 years. At the end of the 2 years service period, those officers had been again recruited on contract basis. The same group of officers had been recruited from 2 years to 2 years on contract basis and salaries and allowances totalling Rs.10,944,272 had been paid to them in the year under review. Furthermore, it was observed that those officers were not entitled to claim gratuities in terms of provisions in the payment of gratuities (amendment) Act No.12 of 1983.

5. Accountability and Good Governance

5.1 Internal Audit

A separate internal audit unit had not been set up for the Fund and a sufficient internal audit had also not been carried out by the internal audit Division of the Department.

5.2 Delayed Projects

A service agreement had been entered into with the University of Peradeniya on 02 December 2015 for a sum of Rs.16,195,000 for the project in respect of the measurement of circulation air condition in Kandy area and to create specimen forms. Of this amount, sums of Rs.8,000,000 and Rs.8,000,000 during the years 2015 and 2017 respectively had been paid to the University. According to the agreement, that project should have been completed as at 05 January 2017 but the agreement period had been extended up to 31 December 2017 on a request made by the University. However, the University had failed to prepare the final project report even up to 24 May 2018.

5.3 Budgetary Control

Even though, provisions of Rs.191 million had been made for 5 expenditure objects, the actual expenditure was only Rs.60 million or 31 per cent of the provision. Accordingly, it was observed that the budget had not been made use as an effective instrument of management control.

6. Systems and Controls

Weaknesses in systems and controls observed in audit were brought to the attention of the Commissioner General of the Department. Special attention is needed in respect of the following areas of systems and control.

Areas of Systems and Control	Observation
-----	-----
(a) Budgetary Control	Massive variances between the budgeted expenditure and the actual expenditure.
(b) Personnel Administration	Non-availability of sufficient and qualified staff for the operation of the affairs of the Fund.
(c) Emission Testing	A road test procedure had not been introduced on air emission in a manner to cover the all island.