

National Transport Commission – 2017

The audit of the financial statements of the National Transport Commission 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 (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 37 of the National Transport Commission Act, No. 37 of 1991. My comments and observations which I consider should be published with the Annual Report of the Commission in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that, I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission’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 Commission’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. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 2.2 of this report.

2. Financial statements

2.1 Opinion

In my opinion, except of the matters described in Paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the National Transport Commission as at 31 December 2017 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

(a) Sri Lanka Public Sector Accounting Standard 02

Even though it should be reported separately the major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows are reported on a net basis determined by the Standard in terms of the Paragraph 31 of the Standard, without showing a sum of Rs. 4,589,099 received from the Treasury as capital grant and a sum of Rs. 300,000,000 remitted to the Treasury separately only the net result amounting to Rs. 295,410,901 had been appeared in the cash flow statement .

(b) Sri Lanka Public Sector Accounting Standard 07

Even though an accounting policy with regard to the accounting of the government grants had been identified, accounting of the value of the lands received as grants had not been included in to the related policy. Even though the lands purchased from the capital grants in the year 2012 valued at Rs. 134,279,913 should be taken in to accounts as assets and as revenue to that extent in that year, in contrary to that, calculating a 5 per cent depreciation thereon for the land only a sum of Rs. 6,713,995 had been debited to the government grant account and credited to the revenue statement.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though only the number of years completed should be considered whilst the calculation of gratuity, as it had considered the total number of years and the number of months when the calculation of the gratuity, the gratuity had been overprovided by Rs. 754,642 for 69 officers . Accordingly, the gratuity provision account had been overstated by that amount.

- (b) As the provisions not made for the accrued expenses for the Sisu Seriya, Nisi Seriya, Gemi Seriya Projects in the preceding year due to a sum of Rs. 38,299,494 paid with regard to the preceding year had been taken in to accounts as the expenses for the year under review and the provisions amounted to Rs. 7,429,132 made in less for the accrued expenses relating to the year under review the surplus for the year under review had been shown understated by Rs. 30,870,362 .
- (c) As a sum of Rs. 5,903,071 incurred for the building repair works of the Institution had been debited to the statement of financial performance as project expenses without capitalized to the building account , the assets and the operational profit had been understated by that amount.
- (d) The interest receivable for the year under review amounted to Rs. 1,780,942 for the investment made in Repurchased Investments (REPO) amounting Rs. 434,845,956 as at 31 December 2017 had not been taken in to accounts.
- (e) Instead making adjustment the opening balance remained in the purchased stationary and printing material stock account during the year with the stock in hand only the portion utilized during the year taken in to accounts as expenditure , the stock of stationary and printing material amounted to Rs. 5,276,646 purchased during the year had been taken in to accounts and the stock in hand at the end of the year had not been taken in to accounts .
- (f) Even though there were 21 sets of temporary passenger service permit books 40 books in each , 24 sets of actual passenger service permit books 100 books in each and 14 sets of special transport permit books in 1000 units were available as at 31 December 2017, those had not been taken into accounts.

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
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(a) Finance Act No. 38 of 1971	
(i) Section 10 (5) of the Act	Even though out of the net surplus income occurred in the Commission at the end of an every year all the cash remained available should be credited to the Consolidated Fund, though an excess from Rs. 109 million to Rs. 190 million had occurred from the year 2014 to the year 2016 in the Commission, actions had not been taken according to that.

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| <p>(ii) Section 11 of the Act and Section 8.2.2 of Public Enterprises Circular No. PED / 12 of 02 June 2003 .</p> | <p>Without obtaining the consent of the Minister of Finance and the approval of the relevant Minister a sum of Rs. 534,156,919 had been invested on approval of the Director General .</p> |
| <p>(b) Financial Regulations of Democratic Socialist Republic of Sri Lanka</p> | |
| <p>Financial Regulation 756</p> | <p>A Board of Survey had not been conducted as at 31 December 2017 by the Commission.</p> |
| <p>(c) Treasury Circular No. 842 of 18 December 1978</p> | <p>A Register of Fixed Assets had not been maintained in terms of the Circular.</p> |
| <p>(d) Treasury Circular No. IAI /2002 / 02 of 28 November 2002</p> | <p>Even though a separate Register for Fixed Assets in respect of computers and software should be maintained in terms of the Circular, a register as such had not been maintained by the Commission for the computers and software amounted to Rs. 51,965,073 .</p> |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Commission for the year ended 31 December 2017 had been a surplus of Rs. 160,889,609 as compared with the corresponding surplus of Rs. 190,189,747 for the preceding year, thus indicating a deterioration of Rs. 29,300,138 in the financial result for the year under review as compared with the preceding year. Even though the income of the Commission had increased by Rs. 70,545,726 in the year under review the increase of expenditure on special projects by Rs. 84,366,969 had mainly attributed to this deterioration .

In analyzing the financial result of the year under review and the preceding 04 years, a deficit was indicated in the year 2013, but a surplus was indicated in each year 2012, 2014, 2015 and 2016 . However, even though in re-adjusting the employees remuneration and depreciation on non- current assets to the financial results, the contribution of Rs. 109,057,130 of the Commission in the year 2012 had become a minus contribution of Rs. 80,262,665 in the year 2013 it had improved up to Rs. 307,494,715 again in the year under review.

3.2 Legal Actions Instituted Against the Commission or Cases Filed by the Commission

The following observations made.

- (i) Twenty two cases had been filed in Supreme Courts against to the Commission by 22 external parties relating to the matters such as permits and procurement, promotions and road extensions.
- (ii) Similarly, 05 cases were being functioned against the Commission as 03 cases in appeal courts in respect of permits , 01 case with regard to the seat reservation in Bastien Mawatha and 01 case in respect of issuing time tables for Colombo Badulla route.
- (iii) Sixteen cases filed in the Magistrate Courts by the Commission were being functioned for the running of buses without a valid passenger service permit issued by the National Transport Commission to related parties.
- (iv) One case in respect of the quality of the seats of the buses and 02 cases in respect of permits were being functioned in the District Courts against the Commission.
- (v) Three cases against the Commission in respect of the terminating of the services were also being functioned in Labour Tribunal.

4. Operating Review

4.1 Performance

4.1.1 Activity and Review

The below mentioned targets planned according to the Annual Action Plan could not be able to fulfilled.

- (a) Three Gemi Seriya services were available and even though it had been targeted to increase it by 28 services, increased only up to 6 services during the year under review and it had been impossible to increase 25 services.
- (b) Even though it had been planned to increase the services under Nisi Seriya Project from 123 to 158 , only to 130 had been increased and it had been impossible to increase 28 new services as planned.
- (c) Even though it had been planned to complete the construction works of Kilinochchi bus terminal during the year under review, only a 50 per cent had been completed by the 31 December 2017 .

- (d) As sum of Rs. 150 million had been allocated for the construction of the Jaffna bus stand and a 40 per cent out of that construction works had been targeted to carry out the construction works had not been done during the year.
- (e) Even though the reconstruction works of the National Transport Commission building had been planned to complete totally during the year 2017, only the planning stage of that had been completed during the year under review.
- (f) As per the Action Plan of the year under review it had been planned to complete the works of Hingurakgoda bus terminal during the year under review only 30 per cent had been completed during the year. The works of this project had not been completed even by the 12 July 2018 the date of audit.
- (g) Actions had been taken to create a GPS computer software facility system to observe the information of the buses and the passengers from the Commission and the computers amounted to Rs. 17,570,635 had been purchased for this during the year under review . Even though the equipment relating to 3,271 buses under the GPS (Global Position System) computer software facility system should be fixed , it had been fixed to only 767 buses. Out of that, SIM cards had been issued only to 697 buses. Accordingly, the GPS technology was not at a functional condition in 79 per cent of the fleet of buses .

4.2 Management activities

The following observations are made.

- (a) The manner for charging for passenger services permits had not been stated in the National Transport Commission Act and those permits had been issued by charging an annual fee of Rs.3,000 on a decision of the Board of Directors. Even though the newly issued permits had been issued to selected persons under an annual fee of Rs.15,000 since the year 2010 following Procurement Procedure whilst those permits are allowed to transfer to another person only on kinship, as the actions had not been taken to revise that act accordingly, the permits had been issued under 3 types of fees for the same route had been occurred. However, out of the total number of 3,171 permits issued by the Commission up to 05 July 2018, sixty two per cent had been issued under an annual license fee of Rs. 3,000 and 29 per cent out of the total permits had been issued on an annual renewal fee of Rs. 15,000 . Accordingly, 91 per cent out the total permits had been handed over without following Procurement Procedure. Accordingly, a massive income which could have been received to the Commission had deprived of.
- (b) Actions had not been taken to issue new passenger service permits identifying new routes by conducting surveys in respect of normal and express ways for the year under review .
- (c) Even though the passenger services permits should be issued for an enforceable period of not less than 01 year and not more than 3 years in terms of Section 25 (b) of the National Transport Commission Act, in contrary that the temporary permits had been issued during the year under review as follows.

- (i) A number of 5,819 temporary permits had been issued with the charges based on Rs. 200 per day by the Head Office and Bastian Mawatha Office for the normal routes and a total number of 4,324 temporary permits had been issued by the Southern Provincial Road Passenger Transport Authority by charging a sum of Rs. 1,500 and Rs. 1,000 per day as 2,274 and 2,050 respectively. Further, the temporary passenger service route permits had been issued charging Rs. 2,500 per day for 65 luxury buses during the period from 25 July 2015 to 30 June 2017 in the Express way. Out of the above 65 buses, permits had been issued based on the minimum technical value of a day calculated by the Commission for 48 buses from the 01 July 2017. Accordingly, due to the persons were not selected for issuing permits by following the procurement procedure after obtaining the competitive bids for issuing permits, the revenue which could have been able to earn had been decreased.
- (ii) The permission to issue temporary permits had been given to the time keeper who was not a responsible officer of the Commission. Accordingly, the time keepers in Maharagama, Kaduwela, and Kadawatha bus stands had issued 972 permits as 947 and 25 respectively by charging a sum of Rs. 1,500 and Rs. 1,000 per day.
- (d) One hundred thirty nine temporary permit books, the books with cash and office copies which had been handed over to the Southern Provincial Road Passenger Transport Authority from the September to the May 2018 had not been returned to the Commission even by the 19 July 2018 the date of audit.
- (e) A passenger service permit which had granted to a certain person in terms of Section 28 of the National Transport Commission Act No. 37 of 1991 could not be able to transfer to any other person and accordingly any such transfer shall be null and void. However, because of the charges made as a transfer fee amounted to Rs. 5,000 and renewal charge amounting Rs. 15,000 per annually the ownership of 63 permits had been changed in the year 2016 and 2017 on relationship.
- (f) To conduct a survey in respect of the ability of running the buses to main towns through outer circular road of the express way had been handed over to the University of Moratuwa and a sum of Rs. 2,127,465 had been incurred by the Commission for that. Only an Interim Report that been furnished by the University of Moratuwa for that on 04 August 2015 and it had been proposed to implement as a new project. Nevertheless the Commission had not agree with the cost estimate submitted by the University and the Commission had decided to implement those activities. However, the Commission had failed to commence those activities even by the 19 July 2018 the date of audit.
- (g) A bus terminal had been constructed in the year 2015 at the Vauniya Town by incurring an expenditure of Rs. 166,393,051 as a main bus interchange centre in the Northern Province. Even though the construction works thereof had been completed and handed over by the contractor on 15 January 2017, that bus terminal had not been used even up to 31 December 2017. However, due to a cost of Rs. 2,807,541 had been incurred during that period thereon employees salaries, cleaning charges, electricity and water bills and as the responsible parties had not taken action to make use the bus terminal it was observed that this cost was a useless expenditure.

4.3 Staff Administration

As compared the approved cadre with the actual cadre as at 31 December 2017 there were 15 vacancies in posts and an excess in 3 posts. Of the vacant posts, 5 posts had been at executive level and recruitment for those posts had not been done even by 16 July 2018 and the duties of such posts had been covered on acting basis. As the post of Director Finance and Procurement had fallen vacant it had been a hindrance to the proper delegation of financial authorities and procurement process of the Institution.

5. Sustainable Development

As the National Transport Commission had aware of the United Nations Sustainable “Agenda” for the year 2030 for the Sustainable Development, actions had been taken to identify the Sustainable Development objectives relating to the activities of that ,targets and interlinks approached to the objectives thereof, and the indicators to measure the achieving of targets .

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

Even though the Financial Statements and Draft Annual Report for the year under review should be furnished to audit within a period of 60 days since the lapse of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/ 12, dated 02 June 2003, the financial statements for the year 2017 had been furnished to audit delayed 30 days that was 29 March 2018.

6.2 Procurement and Contract Process

6.2.1 Procurement

Even though a Procurement Plan had been prepared by the Institution, a detailed Procurement Plan and a Procurement Time Table had not been prepared in terms of Paragraphs 4.2.1 and 4.2.2 of the Procurement Guideline.

6.2.2 Delayed Projects

The following observations are made.

- (a) The construction works of the Medirigiriya Bus Stand was started on 11 October 2016 and the contractual project cost of that was Rs. 68,197,933. When extension of time as per the agreement and later on though this project should be completed on 06 March 2017, completion and handing over to the commission had been made on 28 March 2018 and it was observed that this Bus Stand had been handed over to the public 04 more months later.

- (b) As per the agreement of the Kinniya Stage ii Project, the cost of the project was Rs. 7,137,740 and the construction activities of this project had been commenced on 18 January 2017 . Even though the construction activities of this project should be completed on 18 March 2017 in terms of the agreement, the construction had been completed on 17 August 2017 . This Bus Terminal was opened for the public on 22 August 2018 . Even after the completion of the activities of this project, despite a year has passed this Bus Stand had not been opened for the public . The attention of the Commission had not been drawn on the long term delays in the project activities as such.

6.3 Budgetary Control

As variances ranging from 10 per cent to 160 per cent in 15 income and expenditure items while comparing budgeted and actual income and expenditure balances were observed , thus indicating that the budget had not been made use of as an effective instrument of Management control.

7. Systems and Controls

Weaknesses in systems and controls observed in audit had been brought to the attention of the Chairman of the Commission from time to time. Special attention is needed in respect of the following areas of control.

Area of System and Control -----	Observations -----
(a) Operational Control	(i) Non - issuance of passenger service permits by calling bids. (ii) Delays in issuing permits. (iii) Not maintaining the registers consisting updated information regarding the permits. (iv) Issuing of temporary passenger service permits. (v) Not functioned as per the Financial Regulations whilst payments made for the vouchers. (vi) Confirmations not made as the amount mentioned in the voucher had received.
(b) Procurement Activities	Non- preparation of a detailed Procurement Plan and performing procurements without following procurement methodologies.
(c) Staff Administration	Actions not taken to recruit the employees for the vacancies.
(d) Financial Control	Non- utilization of the money obtained from the Treasury for the relevant activities.

(e) Vehicle Control

- (i)** Not examining the fuel consumption once in a every 06 months.
- (ii)** Fuel balances not made in daily running charts.
- (iii)** Non- preparation of daily running charts in due time period .
- (iv)** Not using a register including details with regard to the vehicles.