

## **National Transport Medical Institute – 2017**

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The audit of financial statements of the National Transport Medical Institute 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 the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 18 of the National Transport Medical Institute Act, No. 25 of 1997. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2) (c) of the Finance Act appear in this report.

### **1.2 Management’s Responsibility for the Financial Statements**

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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**

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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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’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 Institute’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 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.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the National Transport Medical Institute 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

##### **(a) Sri Lanka Public Sector Accounting Standard 01**

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A sum totalling Rs. 724,799,416 invested in Treasury Bills and fixed deposits for periods ranging from 03 months to 01 year, should have been shown under current assets in terms of Section 76 of the Standard. Contrary to that, the said sum had been shown under non-current assets.

##### **(b) Sri Lanka Public Sector Accounting Standard 07**

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As the useful life of non-current assets had not been revised annually in terms of Section 65 of the Standard, 05 items of fixed assets costing Rs. 30,903,039 had still been in use albeit fully depreciated. Action had not been taken to rectify the estimated error in that connection as per Sri Lanka Public Sector Accounting Standard 03.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) The advance amounting to Rs. 9,395,308 paid to a private institution in the year under review relating to a construction contract, had been debited to the receivable account instead of being debited to the advance account.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Action had not been taken even up to 01 June 2018 for recovery of the sum of Rs. 742,312 receivable to the National Transport Medical Institute relating to the years 2011 and 2012.

- (b) Medical services fees amounting to Rs. 4,263,078 had remained receivable to the National Transport Medical Institute from the Sri Lanka Transport Board as at 31 December 2017, whilst season ticket fees totalling Rs. 10,253,596 had remained payable by the Institute to the Sri Lanka Transport Board. Action had not been taken to settle a sum of Rs. 1,470,832 continued to exist from the year 2012 in the said sum.
- (c) A sum totalling Rs. 7,758,267 had remained recoverable from a driving school in Kalutara area relating to the period 2011-2017 in respect of supplying security services, and a building given on lease sans a written agreement.

## 2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

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The following instances of non-compliances were observed.

Reference to Laws, Rules, and Regulations	Non-compliance
(a) Section 11 of the Finance Act, No. 38 of 1971, and Section 8.2.2 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.	When funds of the Institute are invested, consent of the Minister of Finance together with approval of the relevant Minister should be obtained. Contrary to that, a sum of Rs. 764,290,371 had been invested by the Institute in fixed deposits, Treasury bonds, and Treasury bills by the end of the year under review upon approval of the Board of Directors.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i.) Financial Regulation 715 (2)	An assigned officer should perform the duties of acceptance and issue of goods. However, a specific person had not been assigned to the post of Store Keeper. Stock items had been maintained under several officers separately, and those items had not been stored properly.
(ii.) Financial Regulation 396	Action had not been taken in terms of Financial Regulations on 08 cheques valued at Rs. 92,852 that issued but not presented for over 06 months.
(c) Public Finance Circular, No. PF/PE 5, dated 10 January 2000.	(i.) Based on Circulars issued by the Ministry of Health sans Treasury approval, a sum totalling Rs. 5,047,040 had been paid to 12 medical officers of the Institute in the year at Rs. 35,000 per month as allowances for official obstruction transport and attendance.

(ii.) Contrary to the provisions of Circulars, a sum totalling Rs. 861,400 had been paid as special duty allowances in the year to 26 Pharmacists, Radiologists, and Medical Laboratory Technicians at Rs. 3,500 per month.

(iii.) A sum of Rs. 3,459,300 had been paid to medical officers during the year as additional allowances without obtaining Treasury approval in accordance with the Circular. Approval of the Board of Directors relating to the payment of said allowances had not been made available to Audit.

(d) Public Administration Circular, No. 29/2014, dated 29 December 2014. The special advance given to public officers should be Rs. 4,000, but that amount had been increased up to Rs. 25,000 following the decision of Board of Directors, thereby paying a sum totalling Rs. 1,962,500 to the officers as special advances during the year.

(e) Public Administration Circular, No. 07/2015, dated 26 March 2015. Contrary to provisions of the Circular, approval had been given under the decision of Board of Directors to grant festival advance amounting to Rs. 30,000 to the officers subject to be recovered in 10 installments, and a sum totalling Rs. 6,624,000 had been paid in the year as advances.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the National Transport Medical Institute for the year ended 31 December 2017 had been a surplus of Rs. 236,394,046 as compared with the corresponding surplus of Rs. 281,778,132 for the preceding year. As such, the financial result for the year under review indicated a deterioration of Rs. 45,384,086 as compared with the preceding year. The increase in the administrative expenditure by a sum of Rs. 20,916,399, and the decrease in medical services income by a sum of Rs. 25,496,331 had mainly attributed to the said deterioration.

The analysis on the financial results of the year under review and 04 preceding years indicated that the surplus of the year 2013 amounting to Rs. 111,147,463 had grown up to Rs. 236,394,046 by the year 2017. When employee remuneration and depreciation on non-current assets had been adjusted to the financial result, the contribution of the year 2013 amounting to Rs. 262,063,043 had gradually increased up to Rs. 580,079,715 by the year 2016, but the contribution had decreased by Rs. 26,991,003 in the year under review reaching the value of Rs. 553,088,712.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Functionality and Review**

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The activities such as, to provide medical services and assistance to drivers and operators operating or driving all categories of motor vehicles, to provide advice and special guidelines relating to the quantum of compensation or damages payable in cases of accident, to appoint a panel of suitable medical officers to various districts and provinces for the purpose of discharging its functions, to render medical advice and recommendations on industrial hygiene and industrial accidents, to ensure either by itself or in consultation with other agencies that motor vehicles of all descriptions are operated or driven only by persons who are physically and mentally fit and competent, to set standards and prescribe parameters regarding transport medicine to be adopted and implemented by the relevant implementing authorities, that should have been carried out in terms of Section 3 of the National Transport Medical Institute Act, No. 25 of 1997, had not been carried out in the year under review.

### **4.2 Management Activities**

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The following observations are made.

- (a) In terms of Sections 3 (b) and (c) of the National Transport Medical Institute Act, No. 25 of 1997, it was stated to be the functions of the Institute to examine drivers and operators of all categories of motor vehicles including heavy duty vehicles and furnish certificates of physical and mental fitness to such drivers and operators, and to carry out medical examinations on them and furnish recommendations regarding their suitability and fitness. However, in terms of Sections 124 & 126 of the Motor Traffic Act, No. 28 of 1951, the Institute had not been fully authorized to issue certificates for the light vehicles, a function that yields 62 per cent of the total revenue. But, no action had been taken to obtain that authority.
- (b) A plot of the land allocated for parking vehicles of the Medical Institute had been given on lease from the year 2012 to a private institution to park vehicles without calling for tenders at a monthly rent of Rs. 75,000. But, no written agreement had been entered into.
- (c) Even before the year 2004, a monthly lease rent of Rs. 5,000 had been charged in regard to a building given on lease by the Medical Institute to the National Transport Board. No written agreement had been entered into by both parties in that connection, and action had not been taken to revise the lease rent to be on par with current market value by obtaining an assessment report relating to the lease rent.
- (d) The lease agreements relating to the buildings in which the branch offices in Jaffna and Batticaloa had been maintained, had expired on 31 July 2017 and 31 October 2017. The lease agreement for the office in Jaffna had been extended for a period of

one year at the monthly lease rent of Rs. 35,000 whilst the lease period of branch office in Batticaloa had been extended up to 20 October 2020 by increasing the lease rent of Rs. 35,000 up to Rs. 85,000 without following the procurement procedure.

- (e) A land parcel in extent of 0.0083 hectares had been purchased at a sum of Rs. 20,250,000 on 04 July 2017 for the construction of branch office in Gampaha. However, no action had been taken to begin constructions thereof up to the date of audit, 20 April 2018.

#### **4.3 Staff Administration**

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The following observations are made.

- a) The approved cadre and actual cadre as at 31 December 2017, had been 215 and 481 respectively, thus indicating 266 excess employees.
- b) As the posts of General Manager, and Chief Accountant had remained vacant, delegation of administrative and financial authority had remained problematic situation.
- c) A Scheme of Recruitment and Promotion had not been approved, and 123 permanent officers had been appointed by exceeding the approved cadre. Furthermore, without being approved by the Department of Management Services, 143 officers had been recruited on requirement under the basis of contract, daily wages, and part-time hourly rates.

#### **5. Sustainable Development**

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##### **5.1 Achievement of Sustainable Development Goals**

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Every Government institution should comply with the 2030 Agenda for Sustainable Development adopted by the United Nations, and the Institute had been aware as to how to act in regard to the activities under its purview.

#### **6. Accountability and Good Governance**

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##### **6.1 Procurement and Contract Process**

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###### **6.1.1 Procurement**

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The following observations are made.

- a) A Procurement Timetable had not been prepared in terms of Guideline 4.2.3 of the Procurement Guidelines.

- b) According to the Procurement Plan for the year 2017, it had been planned to make procurements through national competitive bidding for printing medical certificates at the estimated cost of Rs. 12,000,000. Accordingly, procurement notices had been published on 01 December 2016 in order to print 900,000 medical certificates for light vehicles, 100,000 medical certificates for heavy vehicles, and 6,000 covers for route permits on 23 November 2016. The following matters were observed in that connection.
- (i.) The standard bid documents of the National Procurement Agency mentioned in Guideline 5.3.1 of the Procurement Manual should have been made use of though, it had not been so done.
  - (ii.) In terms of Guideline 5.3.11 of the Procurement Manual, a bid security of 1 – 2 per cent of the estimated amount should have been obtained though, a refundable cash deposit of Rs. 25,000 equivalent to 0.2 per cent of the estimated amount had been obtained.
  - (iii.) Bids had been furnished by 04 institutions. Following the recommendation of the Technical Evaluation Committee, it had been decided on 27 December 2016 to print the medical certificates through Lakehouse. However, contrary to Guideline 8.1 of the Procurement Guidelines, the decision had been taken by the Procurement Committee on 29 December 2016 to print the medical certificates through the Department of Government Printing for a sum of Rs. 11,040,000 without giving specific reasons. But, 350,000 medical certificates for light vehicles, and 60,000 medical certificates for heavy vehicles, had not been supplied on time, whereas 3041 of the certificates supplied, had remained unusable.
  - (iv.) In terms of Guideline 5.4.8 (b) of the Procurement Guidelines, the security shall be provided by a performance guarantee issued from an acceptable agency, and valid till twenty eight days beyond the intended completion date. Contrary to that, a performance security had been requested only to be valid for a period of one year ended as at 05 January 2018. As such, the Department of Government Printing had furnished a performance security valid only until 06 January 2018.
  - (v.) Although alternative bids had not been permitted in terms of Guideline 5.3.16 of the Procurement Guidelines, an alternative bid of one bidder had been accepted and evaluated.
- c) The following observations are made on the purchase of T-shirts at an expenditure of Rs. 675,000 to be distributed among officers of the Institute.
- (i.) The total amount of Rs. 675,000 spent on printing 900 T-shirts for the 417 employees had been incurred by the Institute during the year under review.

- (ii.) Specifications relating to the procurement of printing T-shirts had been prepared by the Sri Lanka Institute of Textile and Apparel, and a sum of Rs. 21,114 had been paid thereon. However, when bids had been evaluated, the Technical Evaluation Committee and the Procurement Committee of the Department had selected a supplier based on quotations provided by the bidders and the favorability of employees without examining the specifications.
- (iii.) Despite being stated in Guideline 5.4.10 (c) of the Procurement Guidelines that such security in an appropriate amount of not less than 10 per cent of the estimated contract sum may also cover warranty obligations, the Procurement Committee had decided that a performance security of Rs. 33,750 equivalent to 5 per cent of the contract sum totalling Rs. 675,000 be furnished. As such, the supplier had furnished a performance security to that value.

### 6.1.2 Delayed Projects

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Despite being planned to construct buildings each for the offices in Anuradhapura and Kandy in the year under review, those constructions had not been commenced even up to the date of audit, 20 April 2018 due to failure in obtaining approval. Those offices are being maintained at the buildings obtained on lease at present, and lease rents totalling Rs.580,000, and Rs. 1,020,000 had been spent thereon respectively in the year.

### 6.2 Budgetary Control

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As variances ranging between 14.8 per cent and 229 per cent were observed when comparing the budgeted revenue and expenditure of the Institute with the actuals, it was observed that the budget had not been made use of as an effective instrument of management control.

## 7. Systems and Controls

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

### Areas of Systems and Controls

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### Observation

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| (a) Control of Stocks                      | Failure to take action to maintain stocks of drugs adequately so as to minimize emergency purchases.  |
| (b) Revenue Administration                 | Buyers had not been selected transparently when the properties belonging to the Institute had been given on lease or rent. Failure to take action to collect revenue on time. |
| (c) Payment of Allowances to the Employees | Payment of allowances to the employees only on approval of the Board of Directors contrary to provisions of the Circulars.  |



- (d) Contract Administration      Obtaining janitorial and security services sans service agreements.
  
- (e) Utilization of Funds          Investment of the funds of the Institute externally sans proper approval, and allowing the excess funds in the current accounts to be underutilized.
  
- (f) Utilization of Vehicles        (i.) Failure to adhere to the relevant Financial Regulations, and Circulars.  
    (ii.) Failure to maintain log books and information relating to vehicles.
  
- (g) Procurements                    Failure to mention the validity period of bids in the bid documents in terms of Guideline 5.3.10 of the Procurement Manual.