

1.1 Qualified Opinion

The audit of the financial statements of the National Transport Commission for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No.19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Commission as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view 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 misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Commission’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Commission or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Commission’s financial reporting process.

As per Section 16(1) of the National Audit Act N.19 of 2018, the Commission is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Commission.

1.4 Scope of Audit

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a , material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Commission and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
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<p>The bidding security amounting to Rs.4,869,212 and the performance security amounting to Rs.2,438,700 had been recovered by the Commission by terminating the carrying out of the contract as per the Agreement on violating the Agreement relating to the construction of the Kilinochchi Bus- stop. That amount had been stated in the financial statements as an amount payable to the contractor without deducting from the Work-in- Progress Value. As such, the balance payable as at the end of the year under review and the Work-in- Progress Value had been overstated by a sum of Rs.7,307,912 in the financial statements.</p>	<p>This bidding security amount had not been accounted as an income under the concept of discretion on a clear decision not being made by that date relating to the relevant function.</p>	<p>Actin should be taken to rectify the payable balance and the Work-in- Progress Account.</p>

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

Reference to Laws, Rules, Regulations etc.	Non- compliance	Management Comment	Recommendation
(a) Finance Act No.38 of 1971			
i) Section 10(5)	Even though all the remaining money of the net surplus money generating in the end of every year of the Commission should be credited to the Consolidated Fund and even though a surplus of Rs.165,284,562 had been received in the year 2018, only a sum of Rs.100,000,000 had been credited to the Consolidated Fund.	Sums of Rs.300 million and Rs.100 million had been sent to the Treasury in the years 2017 and 2018 respectively. The surplus of Rs.165,284,562 is not a financial surplus.	The remaining money should be credited to the Consolidated Fund by deducting the amount that is estimated for the working capital requirements of the Commission from the surplus received in cash, from the financial surplus that is being stated as per the financial statements.
ii) Section 11 and Section 8.2.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003.	Even though the approval of the Minister of Finance should be obtained in investing surplus money, investments had been made in fixed deposits and in Treasury Bills by the Institution on the approval of the Board of Directors without obtaining the approval accordingly and, an invested balance amounting to Rs.6,780,452 remained as at 31 December 2018.	A request had been furnished to the Ministry of Transport and Civil Aviation to obtain the approval of the Treasury and, a reply to that request had not been received up to date.	Action should be taken to make investments by properly obtaining the relevant approval.

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| (b) National Transport Commission Act No.37 of 1991 Section 08 | Even though issuing of the route permit should be carried out by identifying the demand of the passengers by the Commission, surveys had been carried out only relating to the expressway and even though it had been identified that buses should be deployed for the Tangalle, Hakmana, Katharagama, Deniyaya and Embilipitiya roads starting from Kadawatha, action had not been taken to provide route permits. | The Tender Procedure remains being revised by this period. | The issuance of the route permits should be carried out by identifying the demand of the passengers. |
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2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.165,284,562 and the corresponding surplus in the preceding year amounted to Rs.169,437,153. Therefore, a deterioration amounting to Rs.4,152,591 of the financial result was observed. The main reason for this deterioration is the decrease of the Route Permit Tender Income by a sum of Rs.35,731,952.

3. Operational Review

3.1 Identified Losses

Audit Issue -----	Management Comment -----	Recommendation -----
(a) Even though the approval had been given by the Commission issue permanent road service permits by calling for Tenders as per the decision of the Cabinet of Ministers dated 06 October 2005, 3440 route permits had been issued by the Commission by 31 December of the year 2018 without calling for bids accordingly and, 64 per cent of it had been provided only on charging of the Renewal Fee	Replies had not been submitted.	The relevant introduced Tender Procedure should be followed.

amounting to Rs.3,000. As such, a loss of income had been occurred to the Commission on issuing 91 per cent of the total number of issued permits without calling for Tenders. Moreover, temporary route permits had been issued for the Expressway Buses based on the Minimum Technical Value, by the Commission. As such, 820 route permits had been issued for a maximum period of 28 days in the year under review and, a loss had been occurred in the maximum income that could be obtained by calling for Tenders.

- (b) Twenty- eight buses approximately had been identified by the Mobile Testing Unit that run without road service permits from various provinces in Sri Lanka to North and East in the year 2018 and as such, action had not been taken to issue 31 road service permits for 17 roads. As such, even though potential applicants had been selected by calling for quotations to issue 09 road service permits for 06 roads by the Commission, it had not been able to grant permits in the year under review on not being able to obtain the approval, on not conducting meetings of the Board of Directors for granting of the permits for the selected applicants. As such, a loss of income amounting to Rs.25,815,000 had been occurred to the Commission.
- Action had not been taken to submit a new Form to the new Board of Directors on not confirming the decision of the Board of Directors.
- The relevant approvals should be properly obtained in the specific period for making the services delivered by the Commission and the issuance of permits more efficient.

3.2 Management Inefficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) Even though the collection of the income had not been an objective mentioned in the Act in the establishment of the Commission, income had not been collected by the Commission in the year by reserving seats for the Interprovincial Private Buses. Even though an expenditure amounting to Rs.1,428,548 had been incurred by the Commission for that function, the awareness of the passengers had not been raised relating thereto.	The Commission has the power to execute any function that it deems to be necessary to execute the powers and functions of the Commission, as stated under No.09(1) of the National Transport Commission Act.	Action should be taken to raise the awareness of the passengers relating to that service.
(b) Even though 31 requests had been furnished by students and by schools for Sisu Sariya projects, it could not be able to execute all 31 of those requests. Referring for the deployment of buses for the relevant services as the Institution that regulates transport in executing these projects is a key function as well as a social responsibility of the Commission and necessary action had not been taken considering this matter.	Replies had not been submitted.	Action should be taken by identifying the social responsibility that should be executed as the Institution that regulates transport.
(c) Delays in the receipt of income were observed in the examination on the receipts of income for the lavatory systems of Bastiyan Mawatha. These delays remained ranging from 53 days to 159 days. As such, the 2 nd Condition of the Agreement had been violated and, even though it had been stated that not making payments for a period of 3 months is a reason to terminate the Agreement as per Section 2 of the Agreement dated 24 February 2011, action had not been taken in terms of the Agreement.	Advices had been given to the owner of the Institution which had entered into an agreement for the maintenance of the Public Lavatory System of Bastiyan Mawatha, by calling him in person, to the Institution.	That, action should be taken in terms of the conditions of the Agreement.

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Even though road service permits could be provided for a period of over an year as per Section 25 of the Act, 7740 route permits for the Expressway and 130 route permits for general roads had been issued under the charging of daily fees to the service license holders without a proper approval in the instances where there is a high passenger demand, by the Commission.	Taking action to issue temporary permits in the instances where there is a high passenger demand and in the instances where vacancies remain in Time Tables. Here, buses where permits had been issued for running in other roads are being deployed.	Action should be taken in terms of the Act.
(b) Even though assignments had been made to issue temporary road service permits on the basis of the payment of fees to the Southern Province Road Passenger Transport Authority, income of 09 Books with 25 permits issued in the year 2018 and Permit Books with the copy had not been returned to the Commission and action had not been taken in this connection.	Other Books excluding 09 Books out of the Temporary Permit Books had not been handed over to the National Transport Commission.	That, suitable action should be taken relating to not providing the income of 09 Books and Permit Books with the copy.

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
An Agreement had been entered into for a value of Rs.31,735,051 for the implementation of the PAS Project (Process Automation System) on 29 December 2017 with a private company, by the Commission and even though it had been scheduled to complete all the work and to hand over the project to the Commission on 15 November 2018, the project had not been completed even by 30 May 2019. Moreover, reports on the performance progress of this project were not furnished to audit and the financial progress of this project had been 35 per cent by 31 December 2018.	Replies had not been submitted.	Action should be taken as per the relevant agreement in the execution of this function.

3.5

Defects in Contract Administration

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
<p>An Agreement had been entered into with a private company by the Commission for a sum of Rs.48,773,045 for the construction of the Kilinochchi Bus- stop and the following observations are made in this connection.</p>		
<p>(I) Financial Statements of approximately 5 years should be provided as per the bidding documents and, the minimum annual capacity within the preceding 5 years should be a sum of Rs.86 million and, even though at least one building project valued at Rs.50 million that is equal with those work and with a similar complexity should be completed by the contractor, the attention had not been paid by the Evaluation Committee in this connection despite any conditions whatsoever had not been fulfilled by the contractor.</p>	<p>It had been stated that the minimum annual capacity of the contractor as a sum of Rs.31 million as per the financial statements furnished by the contractor for an year. The minimum average annual capacity of the contractor in the 05 preceding years is more than a sum of Rs.86 million.</p>	<p>It should be identified that the relevant conditions had been fulfilled and the accuracy, in evaluating bids.</p>
<p>(II) Written notices had not been sent to the contractor ordering him to state reasons in writing on not including the name into the list of contractors who had defaulted, despite the construction activities had been defaulted by the contractor, in terms of the Guidelines 8.11.(4) and (5) of the Procurement Guidelines 2006.</p>	<p>It had been informed that the Managing Director of Dharmadasa Construction and Enterprises is not well and that he remains in a critical condition and, it had been informed in writing that the remaining work of the Kilinochchi Bus- stop could not be carried out.</p>	<p>That, action should be taken in compliance with the provisions of the Procurement Guidelines.</p>
<p>(c) The Agreement had been terminated by the Commission on the defaulting the completion of the construction activities in terms of the Agreement. In making payments amounting to Rs.16,469,363 to the contractor for the completed work, demurrages amounting to Rs.2,438,652 had not been charged as per the agreements.</p>	<p>The Final Bill had not been furnished for this construction and it had been informed to the Consulting Institution to deduct demurrages from the payment relating to that Bill, from the Certificate.</p>	<p>Action should be taken in terms of the conditions of the Agreement.</p>

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
Even though the financial statements for the year under review should be furnished to audit within 60 days after the close of the year, the financial statements had been furnished on 17 April 2019, after a delay of one month.		That, action should be taken in compliance with the provisions in Circulars.

4.2 Annual Action Plan

Audit Issue	Management Comment	Recommendation
Even though it had been planned to increase the number of buses as 100,15 and 100 respectively for the Sisu Sariya, Gami Sariya and Nisi Sariya services as per the Action Plan of the year 2018, the achieved percentages in targets out of it had been 57 per cent, 27 per cent and 23 per cent respectively.	Reasons such as not presenting Contributors for the supply of services by the relevant Provincial Road Passenger Transport Authorities and the shortage of employees remaining in the Depots of the Sri Lanka Transport Board, not being able to deploy buses on the shortage of buses, had affected in this connection.	Action should be taken to achieve the planned targets.

4.3 Budgetary Control

Audit Issue	Management Comment	Recommendation
Variations ranging from 100 per cent to 956.57 per cent were observed in comparing the budgeted income of the Institution with its actual income and variations ranging from 104.46 per cent to 244.23 per cent were observed in comparing the budgeted expenditure with the actual expenditure. As such, it was observed that the Budget had not been made use of an effective instrument of management control.	It had been noted to pay attention to minimize the variations between the budgeted and the actual income and the expenditure balances.	Action should be taken to realistically prepare and to monitor the Budget in a manner that it could be made use of as an instrument of management control.

