

Department of Motor Traffic Rewards and Incentive Fund – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Rewards and Incentive Fund of the Department of Motor Traffic 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 net assets 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(3) 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. 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 financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018 and its financial performance and 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 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 Fund's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16 (1) of the National Audit Act, No. 19 of 2018, the Fund 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 of the Fund.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

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 judgment 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on 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 Fund'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 Fund 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 Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Deficiencies in Preparation and Maintenance of Accounts

The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) In terms of paragraph 03 of Public Enterprises Circular No. PF/PA 21 dated 24 May 2002, the financial statements should be presented within 60 days after the closure of the financial year. However, 88 days had lapsed after the closure of the financial year in presenting the accounts of the Incentive Fund to Audit.	Not replied	Taking action in terms of the circular and presentation of accounts as due.
(b) Even though the cash balance in the statement of financial position had been shown as a total of two bank accounts, no analysis thereof had been made available.	Not replied	Information should be reported accurately in a proper manner.

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| (c) Even though a sum of Rs.15.5 million had been shown by notes in the final accounts as the fixed deposit balance, the institution in which investments were made and the serial numbers thereof, had not been revealed in accounts so as to identify the said deposits. | Not replied | Information should be reported accurately in a proper manner. |
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1.5.3 Accounting Deficiencies

The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) According to accounting practice, generally bank reconciliation statements are not prepared for savings accounts. However, a bank reconciliation statement had been prepared for the savings accounts maintained on behalf of the Fund. Moreover, the adjustment of cheques issued relating to a savings account, but not presented, was unrealistic. Nevertheless, a value of Rs.292,330 of unpresented cheques and an unidentified payment of Rs.605 had been adjusted to the cash balance relevant to that account.	Not replied	Acting in compliance with Generally Accepted Accounting Principles
(b) The incentive due to be paid for the 4 th quarter of the year 2018 had been approved by the Governing Board on 07 March 2019. As financial statements had been presented on 29 March 2019, the amount approved by the Governing Board had not been adjusted in accounts as incentive payable. As such, the excess of the year had been understated by Rs.432,891.	Not replied	Income and expenditure relating to the year should be computed as realistically as possible.
(c) Incentive amounting to Rs.365,967 which could not be divided relating to the second and third quarters of the year under review had been credited to the Accumulated Fund. However, explanations had not been given on a ledger account entry relating to its debit entry or on an entry in the cash book. Moreover, information had not been made available to Audit on the credit entry relating to the value of Rs.281,698 debited to the Accrued Expenditure Account on 31 March 2018.	Not replied	Books of Accounts should be maintained in a manner to clearly identify the double entries relating to every ledger account.

1.5.4 Unreconciled Control Accounts or Records

<u>Item</u>	<u>Value according to Financial Statements</u>	<u>Value according to Corresponding Records</u>	<u>Difference</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>		
The difference of Rs.191,725 between the balance according to the pass book of the savings account maintained on behalf of the Fund and the balance according to the final account had not been reconciled.	47,812,524	48,004,249	191,725	Not replied	Accounts should be maintained in a manner that the values of financial statements and the values of source documents are reconciled.

1.5.5 Documentary Evidences not made available for Audit

<u>Item</u>	<u>Audit Evidence not made available</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
The Letters of Appointment of members of the Governing Board which represented the line Ministry and the Treasury in the year under review were not made available to Audit.	Letters of Appointment of members of the Governing Board	Not replied	Letters of Appointment of members of the Governing Board should be properly made available to Audit.

1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

The following observations are made.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) Regulation 395 (d) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Details on numbers and dates of issue of cheques issued but not presented for payment, had not been mentioned in the Bank Reconciliation Statement.	Not replied	Evidence to prove the values mentioned in financial statements should be systematically and properly maintained.

(b) Public Finance Circular
No.PF/423 dated 22
December 2006

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| (i) Paragraph 03.2 (b) | It was observed at the examination carried out by taking 12 months of the year under review that an average balance of Rs.46.04 million had remained monthly in the savings deposit account of the Incentive Fund. It was not observed whether the possibility of crediting these surplus monies to the Consolidated Fund had been considered. | Not replied | In terms of the circular, in case of surplus monies, the possibility of crediting it to the Consolidated Fund should be considered. |
| (ii) Paragraph 4.3 | The performance report which should be submitted within 02 months after the closure of the year of accounts had been submitted on 05 April 2019, after a delay of 35 days. | Not replied | Taking steps to act according to the circular. |

2. Financial Review

2.1 Financial Results

The operations for the year under review was a surplus of Rs.3.26 million as compared with the corresponding surplus of Rs.2.68 million for the preceding year, thus observing an improvement of Rs.0.58 million in the financial result. Even though the annual expenditure on operations had increased by Rs.11.20 million, the increase in the annual revenue by Rs.11.98 million had been the main result for this improvement.

3. Operating Review

3.1 Operating Inefficiencies

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
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| (a) In terms of Regulation 03 (1) of the Motor Traffic Regulations (Rewards and Incentive Fund) No.04 of 2011, four activities | Not replied | That more attention should be paid to the key objectives of the Fund. |
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which qualify for rewards and incentive are indicated. However, it was not observed that payments had been made for 03 out of those activities, for rewards. Moreover, except for the payment of administration expenses of 8 per cent out of the monies received as incentive, the remaining 92 per cent itself had been distributed among the staff as incentive.

No allowance whatsoever had been paid for rewards as proposed, since the inception of this Fund. It was observed that there was a possibility of minimizing defective changes made to motor vehicles if an arrangement of payment of rewards for the activities qualified for rewards, is made.

Even though the Legal Draftsman's Department had drafted the Motor Traffic (Surcharge) Regulations for rewards and special evaluations and sent on 02 May 2017, steps had not been taken even up to 25 April 2019 to send the observations thereon to the Legal Draftsman.

- (b) Even though the Sri Lanka Institute for Development Administration had drafted a methodology on the incentive scheme and handed over to the Department, observations of the Department had not been submitted therefor and steps had not been taken even up to now to obtain the final report thereafter.

Not replied

Speedy submission of observations of the Department, obtaining the final report and taking action accordingly.

3.2 Transactions of Contentious Nature

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
The sources that set up funds for the payment of incentive are cited in Section 213 d (2) of the Motor Traffic Act. However, interest amounting to Rs.1.5 million collected in the savings account as well had been spent in the year under review for the payment of incentive without considering the said matters. Moreover, the interest income spent for the payment of incentive during the 02 preceding years amounted to Rs.2.85 million. Accordingly, a sum of Rs.4.36 million which should be remitted to the Treasury for 03 years alone had been utilized for the payment of incentive.	Not replied	Acting in terms of prevailing laws and rules

3.3 Budgetary Control

The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) In the comparison of the value estimated for the payment of incentive with the actual payment therefor, an underestimation of Rs.3.01 million was observed and the overprovision made for administration expenditure had taken a quantitative value of 61	Not replied	Determining budgetary values realistically.

per cent as compared with the estimated value. Moreover, a budgetary value had not been determined for fixed deposits actually received in the year 2018 and interest on Treasury Bills amounting to Rs.2.34 million. Accordingly, it was observed that the budget had not been made use of as an effective instrument of management control.

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| (b) Even though provisions of Rs.4.20 million had been made from the annual budget for matters such as sports, training, appreciation, rewards etc., no such expenses whatsoever had been incurred during the year. | Not replied | Determining budgetary values realistically. |
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